ANNUAL DEPARTMENTAL REPORT TO THE MAYOR

HEALTH SERVICE SYSTEM

Fiscal Year July 1, 1971 - June 30, 1972

HISTORY:

The Health Service System was established by Charter amendment in March of 1937 and has been conducting business officially since October, 1938. In 1961, the Health Service System became a fully budgeted department of the City of San Francisco and has been operating within its budget since that time.

MEDICAL PLANS OFFERED:

Presently, there are four plans offered to the membership at large. Plan I, the City Administered Plan; Plan II, Kaiser Foundation Health Plan; Plan III, Hospital Service of California (Blue Cross); and Plan IV, the Bay Medical Group. Basic benefits for the City Administered Plan are processed and paid through the Health Service System office. Phoenix Mutual Life Insurance Company is our underwriter for our major medical plan in connection with the City Administered Plan. The Kaiser Plan, considered to be a community plan, underwrites its own major medical contract. The Bay Medical Plan provides medical benefits only to approximately 400 of our thirty-odd-thousand active and retired members.

The above-named plans provide adequate and diversified coverage and, in most instances, reasonable premium rates to the membership.

HEALTH SERVICE BOARD:

The Health Service Board is entrusted with the responsibility of providing the best possible medical coverage at a reasonable cost to all its members. The Board presently is composed of three members elected from the membership at large, two ex-officio members from City government, and two members appointed by the Mayor representing business interests in San Francisco.

Employee Members: Mr. Patrick M. Breen, President
Recreation and Park Department

Mr. Daniel M. McDonagh
Controller's Office

Mr. Harry Paretchan
San Francisco Fire Department

Ex-officio Members: Mr. Thomas A. Toomey
Representing Mr. Thomas M. O'Connor, City Attorney

Mr. Robert H. Mendelsohn
Chairman, Finance Committee
Board of Supervisors

Appointed Members: Abraham Bernstein, M.D.
Practicing Physician

Mr. Robert E. Hassing
Insurance Executive

Mr. Patrick M. Breen has served as President of the Board for the past two years. He has done an exceptionally fine job and it is felt that the composition of the Health Service Board presents a very well-balanced working unit. There is a close liaison established between the City employee, City governmental officials, and downtown business interests.

RATES:

The Health Service Board continues to survey currently through a committee structure comparative premium rates throughout the medical field. Periodically, the findings and changes uncovered as a result of the survey are presented to the full Board for consideration, and are implemented in rate changes at the commencement of each fiscal year. It might be added that the Board is primarily responsible for setting the rates for Plan I and for the major medical carrier underwriting Plan I. For the remaining plans offered, it becomes the Board's responsibility to determine whether or not the contract rates, as presented, are in line with the benefits provided.

CITY'S CONTRIBUTION TO ACTIVE AND RETIRED EMPLOYEES MEDICAL INSURANCE PREMIUMS:

The City and County of San Francisco contributes $5.00 per month as matching funds toward the cost of an active employee's medical insurance coverage. It should be noted that this "matching" over the years has been completely distorted. When the System came into being in 1937, it was determined that the employer and the employee would each contribute 50% toward the medical coverage. Due to the manner in which the matching funds are computed, this fifty-fifty relationship has been distorted to the point where presently the employee is paying 73% and the employer is paying 27%. A Charter amendment was presented to the electorate on June 6, 1972, to correct this inequity; however, it was defeated soundly. The City law-makers realized the existence of this inequity, and Supervisors Kopp, Barbagelata, and Dorothy von Beroldingen are presently proponents of another Charter amendment to correct it.

The City also subsidizes retired employees. The Charter specifically states that no retired employee will pay any more than his active counterpart. Retired subsidy will then fluctuate as the rates for the entire System fluctuate. As an example, the rate for a single member in Plan I at the present time is $15.97 per month. The rate for a retired single member is $39.15 per month. When the matching fund of $5.00 is subtracted from the $15.97 rate, the active employee is paying $10.97 per month out of pocket. His retired counterpart can pay no more than $10.97, so subtracting the $10.97 payment by the active employee from the $39.15 rate for the retired employee, we come up with a figure in the amount of $28.18 (the retired subsidy). It is interesting to note that the City is contributing $28.18 per month to a retired member and contributing only $5.00 per month for an active member.

MEMBERSHIP DIVISION:

The Membership Division of the Health Service System underwent a partial reorganization during the previous fiscal year, and the Division as reorganized is functioning very well. There are presently some 23,000 active employees, approximately 5,400 retired employees, and 1200 resigned and residual employees. When the dependents of these groups are added, the Membership Division is exercising control over some 64,000 people.

A very close liaison is established between Data Processing and Payroll Deductions. Down through the years, as the bugs have been ironed out of E.D.P., the working conditions existing between Data Processing and this Membership Division have been streamlined to a great degree. The personnel of this department have been briefed and indoctrinated in the working of the Data Processing Center, and are acquainted with the mutual problems that exist between the two departments.

The Membership Division also works closely with the Retirement System Staff. A list of new retirees is forwarded to the Health Service System monthly. The rate structure changes and Medicare membership must be considered; plan selection is a factor; and, finally, starting off the retiree with new payroll deductions, etc., is implemented. This operation requires a cooperative effort between this Department, the Retirement System and the Controller's E.D.P. Division.

RULES AND REGULATIONS:

The Health Service Board, through its committee structure, over the past years, has completely re-written the rules and regulations concerning this System. Copies to include current changes are issued to each member as the change occurs. In addition, each member is provided with a wallet-sized digest of the important facets of the rules and regulations yearly. The two most important items would be the month of May sign-up period and the three conditions for being exempt as a member of the System: (1) adequate outside coverage, (2) religious belief, and (3) annual salary in excess of $14,000.

The Health Service Board realizes that this is a service system, and in most cases technical decisions regarding the rules and regulations will be resolved in favor of the member.

CLAIMS DIVISION:

This division is responsible for the handling of claims made against Plan I, the City Administered Health Plan. Plan I is divided into two parts: basic benefit claims and major medical claims. Basic benefits are evaluated for payment in this office and are paid through the Controller's office on a weekly basis. An average of 1200 such claims are processed each week, representing an expenditure averaging approximately $55,000. Major medical claims are assembled in this office and forwarded to the major medical carrier for processing. Checks in payment of these claims are returned to this office for distribution. Weekly volume is about 300 claims with a value of about $40,000. Average of 300 claims per week represents an increase of 200% over the average for the past two years. This increase has resulted from the actions of the Health Service Board in reducing the major medical corridor (deductible) successively from $200 to $100 to $75.00. As such reduction

results in an increase in the claims to be handled and increases the attendant clerical and administrative workload, the present status of this function is not satisfactory; there has been no budgetary adjustment in connection with this 200% increase in workload. Claims continue to be higher each year, both as to dollar amount per claim and number of individuals who find it necessary to file for catastrophic insurance.

The Claims Division maintains close contact with the Compensation Division of the Retirement System - in the event an application for determination before the Retirement Board is approved, i.e., an injury has been determined to be industrially caused. When Medicare bills have been paid by the Health Service System, a lien is placed on the settlement for the purpose of recovering monies expended. This operation requires very close surveillance by Health Service System staff on this phase of Retirement System activity.

PUBLIC HEARINGS:

In accordance with Charter provisions, a public hearing was held January 25, 1972. Members, both active and retired, organization representatives, and visitors were on hand to offer comments, suggestions and, in some instances, complaints and criticisms of the System. Representatives from the three outside plans were present, and many of the questions were directed to representatives of Kaiser, Blue Cross and Bay Medical. The President of the Board, Mr. Patrick M. Breen, reviewed the System's previous year's operations; and Mr. Juan B. Rael of the firm of Rael and Letson, the System's Actuaries, commented on the rates, the coverages, and the gain and loss specifics of the preceding year. The employee organizations were outspoken in their praise for the System generally, and several improvements were recommended. The main issue seemed to be maximum coverage with minimum cost.

ACTUARIAL STATUS:

Juan B. Rael, Jr., our full time Actuary, presents a detailed report monthly with up-to-date figures and presentations for all financial trends and transactions of the System. His report monthly and year to date include Plan I basic benefits, major medical, particularly, and general reference by comparison is made to the other three plans, Kaiser, Blue Cross, and Bay Medical.

The Actuary reports that the System is functioning well within its budget and well within the rate schedule presently in effect. Mr. Rael further stated that the retention and cost of operating the major medical coverage under an insurance carrier amounts to in excess of $75,000 annually, which points to the fact that it would be profitable to the City if the Health Service System were to underwrite its own major medical plan.

ANALYSIS OF SYSTEM FROM MEDICAL VIEWPOINT:

The years 1971 and 1972 were years marked with great challenges presented to the medical profession and all deliverers of health care. The concept that adequate medical care was a right of the individual became paramount and various forms of health care delivery to implement this belief were considered and discussed.

The development of medical foundations, Health Maintenance Organizations (HMO'S), and peer review, both for medical care and hospital utilization,

continued apace. In all of these fields, the Health Service System has maintained close interests and developed lines of communication with basic plans. In addition, we have been active in the Alliance for Health Care, a Federally funded study, involved in a determination of the best means of utilization of the community health facilities.

The Health Service System with Plan I is in a unique and most satisfactory position to obtain the best and most economically reasonable care for our City employees and their dependents. The System, through its experience, has a fund of knowledge of, and actuarial studies to support, the costs of various facets of health coverage. We are in position to advise, accept, reject, or compromise with, all plans that are presented to us. We are never in the position of having to accept a contract that we feel is actually unsound or too expensive, as Plan I is always available in that situation. We feel that we are one of the very few groups to enjoy this safety valve.

Certainly there are areas which require improvement. Nothing is ever perfect. Dental care, extended care coverage, increased psychiatric benefits, alcoholism as a disease, preventive medicine, increased use of out-patient facilities, all have been discussed. Certain benefits that we felt were indicated were prepared and forwarded in ordnance form late in June of 1972 to become effective on or about September 1, 1972, with no increase in rates to members. To maintain a reasonable cost factor, it becomes necessary to utilize peer review and control of hospital usage. We feel this will become necessary as more and more suppliers of health care adopt it and it becomes more or less common practice. It is already an integral part of Medicare, and certainly it will be included in any plan that is in whole or in part the recipient of Federal funds.

The above observations were taken from a report submitted to the Executive Director by Dr. J. T. Fitzgerald, M.D., Medical Advisor of the Health Service System.

GENERAL ACCOUNTING INFORMATION AND BUDGETARY COMPARISONS:

The estimated revenues from members' contributions per budget adopted for the fiscal year 1971-1972 were $6,910,186.00.

The revenues received from members' contributions per E.D.P.'s computer runs for fiscal year ending June 30, 1972, were $8,589,188.67. Please refer to "The Health Service System's Statement of Revenue and Expenditures for Fiscal Year 1971-1972." (Exhibit A)

The actual expenditures for fiscal year 1971-1972 consisting of payments for medical claims from Plan I, City Administered Plan, premium due payments to Phoenix Major Medical Health Plan, Kaiser Foundation Health Plan, Blue Cross Hospital Service Plan and Bay Medical Health Plan, totaled $10,606,557.02.

The difference between revenues received from members' contributions and that of actual expenditures for fiscal year 1971 - 1972 was offset by the City Matching fund, the Retired Subsidy fund and the Health Service System's interest received on certificated deposits plus the reserve carried forward from the preceding fiscal year.

The Health Service System presently holds a contingency reserve account in the amount of $1,600,000.00 on certificated deposits with local banks. The maturity dates on these deposits are staggered in the light of availability and obtaining the highest yield rates.

Please refer to "Comparison of Expenditures with Budget Appropriations for Fiscal Year 1971-1972" shown as Exhibit B.

RECOMMENDATIONS:

At the time of this report, it appears to the Director that the operation and scope of the System could be improved in several ways:

1. Increase in Table of Organization

   An increase in the claims processing staff has become a necessity. The work load has reached a point where the illness or loss of one person can at times cause an undesirable backlog and delay in payment of claims.

2. A Good Dental Plan

   Without such a plan at a reasonable cost, health coverage cannot be accepted as adequate. We have none at this time.

3. Closer Accounting Control

   An autonomous accounting department is a necessity for an operation such as the Health Service System. The inflow and outflow of receipts and disbursements is such that a current and readily available financial position is mandatory.

4. Underwriting the Major Medical Claims

   The possibility of carrying our own major medical coverage should be investigated in depth. Though additional personnel would probably be necessary, it is felt that their cost could be absorbed by the savings in administration, and any additional savings be passed on to the operation of the System or to extension of benefits.

EXECUTIVE DIRECTOR'S STATEMENT:

I must express my sincere appreciation for the abilities and loyalty of the entire staff of the Health Service System, without whose cooperation it would have been extremely difficult for me during the early months in this new position.

HEALTH SERVICE SYSTEM

COMPARISON OF EXPENDITURES WITH ORIGINAL

BUDGET APPROPRIATIONS FOR FISCAL YEAR 1971-1972

APPROPRIATION FOR	ORIGINAL BUDGET APPROP.	EXPENDITURES	DIFFERENCES
Permanent Salaries	255,323	235,943	19,380
Overtime	1,500	1,383	117
Temporary Salaries	6,000	5,805	195
Fees and Other Compensations	250	116	134
Contractual Services	14,622	13,700	922
Use of Employees' Cars	30	173	- 143
Materials and Supplies	2,910	2,754	156
Equipment	196	190	6
Fixed Charges	530	280	250
Services of Other Depts.	134,784	133,784	1,000
TOTALS	416,145	394,128	22,017

HEALTH SERVICE SYSTEM

STATEMENT OF REVENUE AND EXPENDITURES FOR F. Y. 1971-1972

REVENUES

1971-1972 MONTH	PRIOR YEAR RESERVE	CONTRIBUTIONS	MATCHING	RETIRED SUBSIDY	RESERVE	AVAILABLE
JULY	55,516.01	694,588.46	142,488.40	30,325.05		920,917.92
AUGUST	22,587.62	684,493.88	105,984.62	30,931.83		1,008,140.48
SEPTEMBER	-0-	668,793.76	107,618.56	32,183.40		808,595.72
OCTOBER	-0-	683,314.17	112,622.76	32,857.01		828,793.94
NOVEMBER	-0-	675,520.62	108,751.39	32,511.36		816,783.37
DECEMBER	-0-	675,884.85	108,269.88	32,258.65	60,000.00	876,413.38
JANUARY	-0-	675,323.34	108,249.02	31,918.40	-0-	815,490.76
FEBRUARY	-0-	905,576.21	145,292.03	31,718.81	-0-	1,082,587.05
MARCH	-0-	677,056.77	107,551.95	32,283.96	60,000.00	876,892.68
APRIL	-0-	678,015.14	107,935.45	33,601.43	-0-	819,552.02
MAY	-0-	674,450.42	107,509.47	33,630.75	-0-	815,590.64
JUNE	-0-	896,171.05	147,361.07	33,032.60	78,000.00	1,154,564.72
TOTAL	76,103.63	8,589,188.67	1,409,634.60	387,253.25	198,000.00	10,660,180.15

EXPENDITURES

1971-1972 MONTH	CURRENT YEAR BASIC	MAJOR MEDICAL	KAISER	BLUE CROSS	BAY MEDICAL	PAYMENTS	BALANCE
JULY	162,971.52	71,773.26	364,599.56	145,797.50	11,633.55	756,775.39	164,142.53
AUGUST	211,941.38	73,747.43	376,365.80	147,733.03	12,250.32	822,037.96	186,102.52
SEPTEMBER	219,636.86	75,777.48	381,475.02	152,913.68	12,323.23	842,126.27	152,571.87
OCTOBER	187,713.39	77,139.44	395,757.08	161,268.70	13,035.50	834,914.11	146,451.80
NOVEMBER	214,188.16	76,108.74	385,769.96	157,289.54	12,455.36	845,811.76	117,423.41
DECEMBER	287,153.17	*78,746.16	386,249.94	157,300.96	12,337.45	921,787.68	72,048.11
JANUARY	195,911.92	75,583.06	387,453.39	156,612.83	12,302.80	827,864.00	59,675.87
FEBRUARY	218,346.38	83,678.84	511,379.30	208,877.26	17,196.02	1,044,477.80	97,785.12
MARCH	292,882.61	78,015.29	383,850.92	156,660.17	12,894.28	924,303.27	50,274.93
APRIL	186,109.84	75,928.79	387,043.13	158,157.27	12,233.10	819,572.13	50,554.42
MAY	221,106.97	75,752.47	386,221.56	158,177.56	12,426.08	853,684.64	12,860.42
JUNE	271,632.91	91,275.60	518,028.68	214,561.30	17,703.52	1,113,202.01	53,623.13
TOTAL	2,669,595.11	938,526.56	4,864,194.34	1,975,349.80	158,891.21	10,606,557.02	53,623.13

*Inclusive of $2,198.16 paid to the Equitable Life Assurance Company for balance of account.

PJK:EWC:jc
7-14-72

PHILIP J. KEARNEY
EXECUTIVE DIRECTOR

San Francisco

ANNUAL DEPARTMENTAL REPORT TO THE MAYOR

HEALTH SERVICE SYSTEM

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MEDICAL PLANS OFFERED:

Presently, there are three plans offered to the membership at large. Plan I, the City Administered Plan; Plan II, Kaiser Foundation Health Plan; and Plan III, Hospital Service of California (Blue Cross). At the beginning of the fiscal year, a fourth Plan had been offered, the Bay Medical group which cancelled its contract with the City and County of San Francisco effective April 1, 1973. All members of this Plan, by Board action, were automatically transfered to Plan I. Basic benefits for the City Administered Plan are processed and paid through the Health Service System office. Phoenix Mutual Life Insurance Company is our underwriter for our major medical plan in connection with the City Administered Plan. The Kaiser Plan, considered to be a community plan, underwrites its own major medical contract.

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RETIRED SUBSIDY:

The City also subsidizes retired employees. The Charter specifically states that no retired employee will pay any more than his active counterpart. Retired subsidy will then fluctuate as the rates for the entire System fluctuate. As an example, the contract rate for a single member in Plan I for the fiscal period is $15.97 per month. The rate for a retired single member is $39.15 per month. When the matching fund of $5.00 is subtracted from the $15.97 rate, the active employee is paying $10.97 per month out of pocket. His retired counterpart can pay no more than $10.97, so subtracting the $10.97 payment by the active employee from the $39.15 rate for the retired employee, we come up with a figure in the amount of $28.18 (the retired subsidy). It is interesting

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actions of the Health Service Board in reducing the major medical corridor (deductible) successively from $200 to $100 to $75.00. As such reduction results in an increase in the claims to be handled and increases the attendant clerical and administrative workload, the present status of this function is not satisfactory; there has been no budgetary adjustment in connection with this 200% increase in workload, i.e., no new positions have been allowed. Claims continue to be higher each year, both as to dollar amount per claim and number of individuals who find it necessary to file for catastrophic insurance.

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PUBLIC HEARINGS:
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ACTUARIAL STATUS:
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It should be noted for this fiscal period the Health Service System enjoyed a 100% loss ratio, i.e., all the revenue coming in here expended on a equal basis for medical benefits and service for our membership. This is a very difficult plateau to reach in a municipal reserve type system. It should be further noted that this actuarial result was attained with no accompanying rate increase.

ANALYSIS OF SYSTEM FROM MEDICAL VIEWPOINT:
In the field of health care the year 1972 - 1973 was again one of searching and evaluation. The more economical delivery of care through Health Maintenance Organizations (HMO'S), was still being debated. Peer Review and the use of Foundations for the better utilization of available facilities and physicians service was an active issue.

The establishment of and the extent of coverage under the Federal Government

was actively being considered and discussed. What the future will be for the delivery of health services is still in a bit of a turmoil.

The Health Service System is maintaining a close study of the various currents as they develop and is holding an open mind as to which would be most beneficial to its members. How some type of Federal Coverage would alter the mechanics of our plans, we have no way of anticipating.

The increasing use of invasive studies of the heart and vascular system and the increased number of surgical procedures in the cardo vascular system; and the rapid development of complete reconstruction of the hip joint are all causing larger expenditures of our funds, both professionally and for hospitalization.

We are doing much to meet the challenge. Our hospital allowance has been increased from $65.00 per day to $80.00, a 23% increase, duration of coverage to 180 days and auxilliary hospital costs to 1600.00 per year. Maternity costs were re-evaluated in the light of present day costs and a reasonable allowance of $200.00 toward hospital charges and $200.00 for professional fees was instituted. We feel that this last change will be a boon to the younger City and County employees who are starting their families.

The general statements which I made in my earlier 1971 - 1972 report I feel are still valid. It is unfortunate that the alliance for Health Care is no longer active as it was a source of information and a place to exchange ideas.

GENERAL ACCOUNTING INFORMATION AND BUDGETARY COMPARISONS:

The revenues received from members contributions per E.D.P.'s computer runs for fiscal year ending June 30, 1973 were $9,576,583.95. Please refer to "Health Service Systems Statement of Revenue and Expenditures for Fiscal Year 1972 - 1973" shown as Exhibit B. Particular attention is called to the total revenue available column.

The actual expenditures for fiscal year 1972 - 1973 consisting of payments for medical claims for Plan I - City Administered Plan, premiums due Phoenix Mutual Life Insurance Company our Major Medical contract underwriter, Kaiser Foundation Health Plan, Blue Cross Hospital Service Plan and Bay Medical Health Plan totaled $11,594,638.65.

The difference between revenues received from members contributions and that of actual expenditures for the fiscal year was offset by the City Matching fund, the Retired Subsidy fund and the Health Service System's interest received on certificated deposits plus the reserve carried forward from the preceeding fiscal year.

The Health Service system presently holds a contingency reserve account in the amount of $1,600,000.00 on certificated deposits with local banks. The maturity dates on these deposits are staggered in the light of availability and obtaining the highest yields.

Please refer to Comparison of Expenditures with Budget Appropriations attached and incorporated in this report as Exhibit A.

RECOMMENDATIONS:
At the time of this report, it appears to the Director that the operation and scope of the System could be improved in several ways:

1. Increase in Table of Organization
   An increase in the claims processing staff has become a necessity. The work load has reached a point where the illness or loss of one person can at times cause an undesirable backlog and delay in payment of claims.

2. Closer Accounting Control
   An autonomous accounting department is a necessity for an operation such as the Health Service System. The inflow and outflow of receipts and disbursements is such that a current and readily available financial position is mandatory.

3. Underwriting the Major Medical Claims
   The possibility of carrying our own major medical coverage should be investigated in depth. Though additional personnel would probably be necessary, it is felt that their cost could be absorbed by the savings in administration, and any additional savings be passed on to the operation of the System or to extension of benefits.

HEALTH SERVICE SYSTEM

COMPARISON OF EXPENDITURES WITH ORIGINAL

BUDGET APPROPRIATIONS FOR FISCAL YEAR 1972 - 1973

APPROPRIATION FOR	ORIGINAL BUDGET APPROP.	EXPENDITURES	DIFFERENCES
Permanent Salaries	265,481	241,800	23,681
Overtime	1,300	1,300	-0-
Temporary Salaries	2,500	1,445	1,055
Fees and Other Compensations	150	150	-0-
Contractual Services	9,473	9,519	-46
Use of Employee's Cars	30	30	-0-
Materials and Supplies	2,800	2,630	170
Equipment	300	300	-0-
Fixed Charges	250	280	-30
Services of Other Depts.	125,332	125,332	-0-
TOTALS	407,616	382,786	24,830

EXHIBIT A

HEALTH SERVICE BY A. M.

STATEMENT OF REVENUE AND EXPENDITURES FOR F. Y. 1972-1973

1972-1973 MONTH	PRIOR YEAR RESERVE	CONTRIBUTIONS	MATCHING	REVENUES RETAINED SURPLUS	RESERVE	AVAILABLE
JULY	55,661.76	771,917.09	105,164.39	46,839.44		979,582.68
AUGUST	-0-	745,489.59	105,038.54	47,148.69		897,676.82
SEPTEMBER	-0-	749,540.40	105,637.61	45,836.77	21,000.00	922,063.78
OCTOBER	-0-	757,417.39	103,716.13	49,554.56	-0-	910,698.07
NOVEMBER	-0-	751,615.13	107,222.33	50,876.24	-0-	909,713.70
DECEMBER	-0-	752,209.58	104,803.37	50,072.20	-0-	907,135.45
MARY	-0-	1,007,997.54	142,104.96	49,409.86	-0-	1,199,512.36
FEBRUARY	-0-	759,458.58	104,304.12	50,449.07	-0-	914,211.77
MARCH	-0-	750,241.14	107,101.30	55,547.71	-0-	913,860.15
APRIL	-0-	759,722.61	106,664.83	50,945.38	-0-	917,332.82
MAY	-0-	760,254.71	107,078.88	55,362.80	-0-	922,696.39
JUNE	-0-	1,010,709.90	146,909.52	55,101.09	-0-	1,212,680.51
TOTAL	55,661.76	9,576,583.95	1,345,885.98	608,292.81	21,000.00	11,607,384.50

1972-1973 MONTH	PRIOR YEAR BILLS	CURRENT YEAR BILLS	MAJOR DEPOSIT	EXPENDITURES MADE	LESS CREDITS	PAY ROLL	PAYMENTS	BALANCE
JULY	53,009.82	153,800.56	79,967.29	433,825.97	175,009.41	12,308.75	808,019.80	81,552.80
AUGUST	-0-	273,641.93	80,504.27	427,134.89	175,249.04	11,948.48	968,482.61	19,771.
SEPTEMBER	-0-	217,868.99	81,088.75	437,833.15	177,579.06	11,782.51	916,152.46	16,[illegible]
OCTOBER	-0-	214,665.71	81,173.01	423,614.71	173,535.45	11,944.25	903,233.13	24,[illegible]47.
NOVEMBER	-0-	213,925.47	82,654.18	436,005.57	178,830.24	12,425.55	931,901.01	11,[illegible]80.
DECEMBER	-0-	199,361.23	84,000.06	429,798.32	177,057.33	11,948.66	902,221.80	12,743.
JANUARY	-0-	284,955.94	98,349.24	574,090.47	237,802.77	17,075.55	1,192,274.97	23,[illegible]1.
FEBRUARY	-0-	217,861.06	81,179.65	426,418.20	174,292.03	11,736.63	911,481.57	25,711.
MARCH	-0-	209,685.71	82,359.15	431,917.95	179,567.60	12,083.78	919,234.19	25,197.
APRIL	-0-	213,421.12	83,470.74	431,919.45	182,130.98	5,118.78	916,961.07	26,44 .1
MAY	-0-	220,264.85	86,601.42	437,274.60	184,489.71	369.05	928,988.63	20,1[illegible]
JUNE	-0-	282,347.09	104,642.01	569,142.32	243,856.86	343.33	1,220,331.61	1,[illegible]
TOTAL	53,009.82	2,681,860.66	1,024,079.77	5,457,256.60	2,259,400.48	119,031.32	11,594,638.85	12,723.8[illegible]

Eugene H. Chu
for PHILIP J. KEARNEY
EXECUTIVE DIRECTOR

PJK:EHC;DA
7-12-73

EXHIBIT B

ANNUAL DEPARTMENTAL REPORT TO THE MAYOR

HEALTH SERVICE SYSTEM

Fiscal Year July 1, 1973 - June 30, 1974

HISTORY:

The Health Service System was established by Charter Amendment in March of 1937 and has been conducting business officially since October 1938. In 1961, the Health Service System became a fully budgeted department of the City of San Francisco and has been operating within its budget since that time.

MEDICAL PLANS OFFERED:
Presently, there are three plans offered to the membership at large. Plan I, the City Administered Plan; Plan II, Kaiser Foundation Health Plan; and Plan III, Blue Cross Hospital Service of California.

Basic benefits for the City Administered Plan are processed and paid through the Health Service System office. Phoenix Mutual Life Insurance Company is our underwriter for our major medical plan in connection with the City Administered Plan. The Kaiser Plan, considered to be a community rated plan, underwrites its own major medical contract, as does Blue Cross.

The above-named plans provide adequate and diversified coverage and, in most instances, reasonable premium rates to the membership.

HEALTH SERVICE BOARD:
The Health Service Board is entrusted with the responsibility of providing the best possible medical coverage at a reasonable cost to all its members. The Board presently is composed of three members elected from the membership at large, two ex-officio members from City government, and two members appointed by the Mayor representing business interests in San Francisco,

Employee Members: Mr. Frank Lucibello
Public Health

Mr. Daniel M. McDonagh
Controller's Office

Mr. Harry Paretchan
San Francisco Fire Department

Ex-Officio Members: Mr. Thomas A. Toomey
Representing Mr. Thomas M. O'Connor, City Attorney

Hon. Dorothy von Beroldingen
Chairman, Finance Committee
San Francisco Board of Supervisors

Appointed Members: Abraham Bernstein, M.D.
Practicing Physician

Mr. Robert E. Hassing, President
Insurance Executive
Cleverdon & Company

It is felt that the composition of the Health Service Board presents a very well-balanced working unit. There is a close liaison established between the City employees, City governmental officials, and downtown business interests.

RATES:
The Health Service Board continues to survey currently through a committee structure comparative premium rates throughout the medical field. Periodically, the findings and changes uncovered as a result of the survey are presented to the full Board for consideration, and are implemented in rate changes at the commencement of each fiscal year. It might be added that the Board is primarily responsible for setting the rates for Plan I and for the major medical carrier. For the remaining plans offered, it becomes the Board's responsibility to determine whether or not the contract rates, as presented, are in line with the benefits provided.

CITY'S CONTRIBUTION TO ACTIVE AND RETIRED EMPLOYEES MEDICAL INSURANCE PREMIUMS:
Effective July 1, 1973, the City and County of San Francisco contributed $10.53 per month toward the cost of an active employee's medical insurance coverage. This $10.53 represented an increase of $5.53 over the City's contribution for the previous fiscal year and represented 50% of the average being contributed by the ten (10) most populous counties in the State of California.

Effective July 1, 1974, the City and County of San Francisco will be contributing 100% of this average. The change in contribution rate by the City and County of San Francisco for the employees was brought about by the successful passage of Proposition 'C' by the electorate in November 1972.

RETIRED SUBSIDY:
The City also subsidizes retired employees. The Charter specifically states that no retired employee will pay any more than his active counterpart. Retired subsidy will then fluctuate as the rates for the entire System fluctuate. As an example, the contract rate for a single member in Plan I for the fiscal year 1973-1974 was $18.19 per month. The rate for a retired single member was $38.70 per month. When the matching fund of $10.53 was subtracted from the $18.19 rate, the active employee was paying $7.66 per month out of pocket. His retired counterpart could pay no more than $7.66, so subtracting the $7.66 payment by the active employee from the $38.70 rate for the retired employee, we arrive at a figure in the amount of $31.04 (the retired subsidy). It is interesting to note that the City contributed $31.04 per month for a retired member and only $10.53 per month for an active employee for this fiscal year.

MEMBERSHIP DIVISION:
The Membership Division of the Health Service System underwent a partial reorganization during the previous fiscal year, and the Division as reorganized is function-

ing very well. There are presently some 23,754 active employees, approximately 6,383 retired employees, and 1,322 resigned and residual employees. When the dependents of these groups are added, the Membership Division is exercising control over some 67,276 people.

A very close liaison is established between Data Processing and Payroll Deductions. Down through the years, as the bugs have been ironed out of E.D.P., the working conditions existing between Data Processing and this Membership Division have been streamlined to a great degree. The personnel of this department have been briefed and indoctrinated in the working of the Data Processing Center, and are acquainted with the mutual problems that exist between the two departments.

The Membership Division also works closely with the Retirement System Staff. A list of new retirees is forwarded to the Health Service System monthly. The rate structure changes and Medicare membership must be considered; plan selection is a factor; and finally, starting off the retiree with new payroll deductions, etc., is implemented. This operation requires a cooperative effort between this Department, the Retirement System and the Controller's E.D.P. Division.

RULES AND REGULATIONS:

The Health Service Board, through its committee structure, over the past years, has completely re-written the rules and regulations concerning this System. Updated copies to include current changes are issued periodically to each member. In addition, each member is provided with a wallet-sized digest of the important facets of the rules and regulations yearly. The two most important items would be the month of May sign-up period and the three conditions for being carried in an Exempt status in the System: (1) adequate outside coverage, (2) religious belief, and (3) annual salary in excess of $14,000.

The Health Service Board realizes that this is a "service system," and in most cases technical decisions regarding the rules and regulations will be resolved in favor of the member.

CLAIMS DIVISION:

This division has the responsibility for handling claims submitted for payment to Plan I, the City Administered Health Plan. This plan is divided into two parts:

1) Basic Benefits Claims - these claims are evaluated in this office and paid through the Controller's office on a periodic basis. An average of about 1400 claims are processed each week, representing an annual expenditure of some $3,500,000 ($4,000,000 for the 74-75 fiscal year).

2) Major Medical Claims - these claims are assembled in this office and forwarded to the Major Medical carrier for processing. Checks in payment of these claims are returned to this office for distribution. Weekly volume is about 400 claims with an annual value of about $1,200,000. There has been an increase of over 200% in the volume of such claims in recent years, due to successive reductions in the deductible amount required to qualify for major medical benefits. During this period no increase in staff has been allowed in the annual budget.

The present staff of the claims division is adequate to handle the work load if every employee is present every day. This is patently impossible since this staff is entitled collectively to approximately one man year in vacation and sick leave allowances. It is then evident that the claims division averages only 90% attendance when 100% is required to maintain the bare necessities of production.

The Claims Division must also maintain close liaison with the Compensation Claims Division of the Retirement System in order to ensure refund of monies expended on cases later determined to have been industrial in origin. Close surveillance of this aspect is required to protect the financial structure of the Health Service System.

PUBLIC HEARINGS:
In accordance with Charter provisions, a public hearing was held January 17, 1974. Members, both active and retired, organization representatives, and visitors were on hand to offer comments, suggestions and, in some instances, complaints and criticisms of the System. Representatives from two outside plans were present, and many of the questions were directed to representatives of Kaiser and Blue Cross. The President of the Board, Commissioner Robert E. Hassing, reviewed the System's previous year's operations; and Mr. Juan B. Rael of the firm of Rael and Letson, the System's Actuaries, commented on the rates, the coverages, and the gain and loss specifics of the preceding year. The employee organizations were outspoken in their praise for the System generally, and several improvements were recommended. The main issue seemed to be maximum coverage with minimum cost.

ACTUARIAL STATUS:
Juan B. Rael, Jr., our full time Actuary, presents a detailed report monthly with current figures for all financial trends and transactions of the System. His report monthly and yearly to date include Plan I basic benefits, major medical particularly, and general reference by comparison is made to the other two plans, Kaiser and Blue Cross.

It should be noted for this fiscal period that the Health Service System enjoyed a 100% loss ratio, i.e., all the revenue received was expended for medical benefits and service for our membership. This is a very difficult plateau to reach in a municipal reserve type system. It should be further noted that this actuarial result was attained with no accompanying rate increase.

ANALYSIS OF SYSTEM FROM MEDICAL VIEWPOINT:
1973-1974 was a year of review and study of the delivery methods of health care to the people of our country. No earth shocking changes occurred, but the debate over PSRO's (peer review) continued. Their development and activation, however, is merely a matter of time.

The main reason for this period of marking time has been the question of National Health Insurance and its impact on our present systems of medical care. Congress has failed to act on the bill presented, and I feel certain nothing will be decided until next year at the earliest.

We have no way of determining the impact of PSRO's and a National Health Insurance Act on our plan or plans. All that can be done at this time is to keep our projections and operations flexible enough to be practical and workable under any possible changes.

The rising costs of medical care is part of the total inflationary spiral we are experiencing in these years. Superimposed on this fact is the increasing number of more involved and expensive medical procedures. Open heart surgery, vascular surgery, replacement of joints, increased use of nuclear medicine, invasive X-ray studios, sophisticated laboratory procedures - all of these inexorably add to the cost of medical care. One cannot deny their necessity, however.

We feel that both our Basic Plan and our Major Medical Carrier have done an excellent job in looking forward to these developments and planning for our members' reimbursement. To meet our members increased cost, we have again raised our hospital allowances, both for room charges, days of coverage and hospital auxiliary costs.

Are there areas of improvement? Of course. Dental care has been accepted as a necessity. It is felt that there is a real need for more adequate psychiatric coverage: reimbursement should be considered for the medical treatment of the disease of alcoholism and some coverage for extended care and convalescent care is necessary. Another area that needs study is that of Preventive Medicine. Would it be utilized? Are the medical benefits significant? Does the number of unknown treatable conditions determined justify the cost factor involved? These are questions that are not easily interpreted.

GENERAL ACCOUNTING INFORMATION AND BUDGETARY COMPARISONS:

The revenues received from members contributions per E.D.P.'s computer runs for fiscal year ending June 30, 1974 were $13,163,900.76. Please refer to "Health Service System's Statement of Revenue and Expenditures for Fiscal Year 1973-1974" shown as Exhibit B. Particular attention is called to the total revenue available column.

The actual expenditures for fiscal year 1973-1974 consisting of payments for medical claims for Plan I - City Administered Plan, premiums due Phoenix Mutual Life Insurance Company, our Major Medical contract underwriter, Kaiser Foundation Health Plan, and Blue Cross Hospital Service Service Plan - totaled $13,132,327.98.

The difference between revenues received from members contributions and that of actual expenditures for the fiscal year was offset by the City Matching fund, the Retired Subsidy fund and the Health Service System's interest received on certificated deposits plus the reverse carried forward from the preceding fiscal year.

The Health Service System presently holds a contingency reserve account in the amount of $1,600,000.00 on certificated deposits with local banks. The maturity dates on these deposits are staggered in the light of availability and obtaining the highest yields.

Please refer to Exhibit A, Comparison of Expenditures with Budget Appropriations, and Exhibit B, Statement of Revenue and Expenditures, attached and incorporated in this report.

RECOMMENDATIONS:

1) Increase in Table of Organization
An increase in the claims processing staff has become a necessity. The work load has reached a point where the illness or loss of one person can at times cause an undesirable backlog and delay in payment of claims.

2) Closer Accounting Control
An autonomous accounting department is a necessity for an operation such as the Health Service System. The inflow and outflow of receipts and disbursements is such that a current and readily available financial position is mandatory.

HEALTH SERVICE SYSTEM

COMPARISON OF EXPENDITURES WITH ORIGINAL

BUDGET APPROPRIATIONS FOR FISCAL YEAR 1973-1974

APPROPRIATION FOR	ORIGINAL BUDGET APPROPRIATION	EXPENDITURES	DIFFERENCES
Permanent Salaries	285,352.00	254,615.83	30,736.17
Overtime	1,000.00	988.22	11.78
Temporary Salaries	2,000.00	1,162.20	837.80
Fee and Other Compensations	150.00	125.00	25.00
Contractual Services	12,143.00	13,579.64	-1,436.64
Materials and Supplies	2,850.00	2,440.22	409.78
Fixed Charges	280.00	105.00	175.00
Services of Other Depts.	150,635.00	155,667.00	-5,032.00
TOTALS	454,410.00	428,683.11	25,726.59

EXHIBIT A

HEALTH SERVICE SYSTEM

STATEMENT OF REVENUE AND EXPENDITURES FOR F.Y. 1973 - 1974

REVENUES

1973-1974 MONTH	PRIOR YEAR RESERVE	CONTRIBUTIONS	MATCHING	RETIRED SUBSIDY	INTEREST FROM DEPOSITS	AVAILABLE
JULY	46,144.18	699,485.04	172,018.89	76,932.20		994,580.31
AUGUST	-0-	747,350.95	177,644.34	81,239.75		1,006,235.04
SEPTEMBER	-0-	752,191.82	183,897.91	67,375.12		1,003,464.85
OCTOBER	-0-	762,727.40	184,110.30	100,656.18		1,047,493.88
NOVEMBER	-0-	761,005.25	188,565.02	81,859.39		1,031,429.66
DECEMBER	-0-	790,791.07	194,090.14	87,944.49		1,072,825.70
JANUARY	-0-	1,015,193.57	251,204.84	84,235.11		1,350,633.52
FEBRUARY	-0-	760,168.35	189,602.34	84,826.24		1,034,596.93
MARCH	-0-	712,217.94	188,410.76	82,793.41		983,422.11
APRIL	59,119.18	705,773.70	187,677.11	83,434.49	90,880.82	1,126,885.30
MAY	-0-	855,825.83	188,838.08	88,409.14		1,133,073.05
JUNE	- 33,757.23	1,035,302.72	255,717.17	88,240.52	33,757.23	1,379,260.41
TOTALS	71,506.13	9,598,033.64	2,361,776.90	1,007,946.04	124,638.05	13,163,900.76

EXPENDITURES

1973-1974 MONTH	CURRENT YEAR BASIC	MAJOR MEDICAL	KAISER	BLUE CROSS	PAYMENTS	BALANCE
JULY	163,942.19	92,415.40	447,339.50	179,243.40	882,940.49	111,639.82
AUGUST	292,927.47	98,856.68	476,001.32	189,957.90	1,057,743.37	60,131.49
SEPTEMBER	206,788.48	86,588.17	481,601.80	190,622.94	965,601.39	97,994.95
OCTOBER	239,120.22	119,094.58	484,400.13	192,786.34	1,035,401.27	110,087.56
NOVEMBER	245,827.31	101,774.97	486,468.75	193,634.25	1,027,705.28	113,811.94
DECEMBER	250,761.32	104,720.59	506,244.62	203,657.27	1,065,383.80	121,253.84
JANUARY	399,259.43	121,210.45	652,686.88	257,338.07	1,430,494.83	41,392.53
FEBRUARY	259,939.26	101,810.41	489,312.50	194,335.96	1,045,398.13	30,591.33
MARCH	303,805.43	100,162.74	462,768.60	178,777.99	1,045,514.76	-31,501.32
APRIL	253,895.48	100,198.39	458,135.54	175,999.71	988,229.12	107,154.86
MAY	302,438.93	105,932.87	540,702.13	225,743.28	1,174,817.21	65,410.70
JUNE	358,077.67	122,989.01	666,084.36	265,947.29	1,413,098.33	31,572.78
TOTALS	3,276,783.19	1,255,754.26	6,151,746.13	2,448,044.40	13,132,327.98	31,572.78 (Balance forward

ANNUAL DEPARTMENTAL REPORT TO THE MAYOR

HEALTH SERVICE SYSTEM

Fiscal Year July 1, 1974 - June 30, 1975

HISTORY:
The Health Service System was established by Charter Amendment in March of 1937 and has been conducting business officially since October 1938. In 1961, the Health Service System became a fully budgeted department of the City of San Francisco and has been operating within its budget since that time.

MEDICAL PLANS OFFERED:
Presently, there are three plans offered to the membership at large. Plan I, the City Administered Plan; Plan II, Kaiser Foundation Health Plan; and Plan III, Blue Cross of Northern California.

Basic benefits for the City Administered Plan are processed and paid through the Health Service System office. Phoenix Mutual Life Insurance Company is our underwriter for our major medical plan in connection with the City Administered Plan. The Kaiser Plan, considered to be a community rated plan, underwrites its own major medical contract, as does Blue Cross.

The above-named plans provide adequate and diversified coverage and, in most instances, reasonable premium rates to the membership.

HEALTH SERVICE BOARD:
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Employee Members: Mr. Harry Paretchan, President
San Francisco Fire Department

Mr. Frank Lucibello
Public Health

Mr. Daniel M. McDonagh
Controller's Office

Ex-Officio Members: Mr. Thomas A. Toomey
Representing Mr. Thomas M. O'Connor, City Attorney

Hon. Dorothy von Beroldingen
Chairman, Finance Committee
San Francisco Board of Supervisors

Appointed Members: Abraham Bernstein, M.D.
Practicing Physician

Mr. Robert E. Hassing
Insurance Executive
Joseph A. Wynne Agency

It is felt that the composition of the Health Service Board presents a very well-balanced working unit. There is a close liaison established between the City employees, City governmental officials, and downtown business interests.

RATES:
The Health Service Board continues to survey currently through a committee structure comparative premium rates throughout the medical field. Periodically, the findings and changes uncovered as a result of the survey are presented to the full Board for consideration, and are implemented in rate changes at the commencement of each fiscal year. It might be added that the Board is primarily responsible for setting the rates for Plan I and for the major medical carrier. For the remaining plans offered, it becomes the Board's responsibility to determine whether or not the contract rates, as presented, are in line with the benefits provided.

CITY'S CONTRIBUTION TO ACTIVE AND RETIRED EMPLOYEES MEDICAL INSURANCE PREMIUMS:
Effective July 1, 1974, the City and County of San Francisco contributed $23.16 per month toward the cost of an active employee's medical insurance coverage. This $23.16 represented an increase of $12.73 over the City's contribution for the previous fiscal year and represented 100% of the average being contributed by the ten (10) most populous counties in the State of California.

RETIRED SUBSIDY:
The City also subsidizes retired employees. The Charter specifically states that no retired employee will pay any more than his active counterpart. Retired subsidy will then fluctuate as the rates for the entire System fluctuate. As an example, the contract rate for a single member in Plan I for the fiscal year 1974-1975 was $23.66 per month. The rate for a retired single member was $46.41 per month. When the matching fund of $23.16 was subtracted from $23.66 rate, the active employee was paying .50¢ per month out of pocket. His retired counterpart could pay no more than .50¢, so subtracting the .50¢ payment by the active employee from the $46.41 rate for the retired employee, we arrive at a figure in the amount of $45.91 (the retired subsidy). It is interesting to note that the City contributed $45.91 per month for a retired member and only $23.16 per month for an active employee for this fiscal year.

MEMBERSHIP DIVISION:
The Membership Division of the Health Service System underwent a partial reorganization during the previous fiscal year, and the Division as reorganized is functioning very well. There are presently some 24,311 active employees, approximately 6,780 retired employees, and 569 resigned and residual employees. When the dependents of these groups are added, the Membership Division is exercising control over some 68,597 people.

A very close liaison is established between Data Processing and Payroll Deductions. Down through the years, as the bugs have been ironed out of E.D.P., the working conditions existing between Data Processing and this Membership Division have been streamlined to a great degree. The personnel of this department have been briefed and indoctrinated in the working of the Data Processing Center, and are acquainted with the mutual problems that exist between the two departments.

The membership Division also works closely with the Retirement System Staff. A list of new retirees is forwarded to the Health Service System monthly. The rate structure changes and Medicare membership must be considered; plan selection is a factor; and finally, starting off the retiree with new payroll deductions, etc., is implemented. This operation requires a cooperative effort between this Department, the Retirement System and the Controller's E.D.P. Division.

RULES AND REGULATIONS:

The Health Service Board, through its committee structure, over the past years, has completely re-written the rules and regulations for this System. Updated copies to include current changes are issued periodically to each member. In addition, each member is provided with a Comparison of Plans sheet outlining benefits and rates for the fiscal year. A digest of the important facets of the rules and regulations is also printed on the Comparison of Plans sheet. The two most important items would be the month of May sign-up period and the three conditions for being carried in an Exempt status in the System; (1) adequate outside coverage, (2) religious belief, and (3) annual salary in excess of $14,000.

The Health Service Board realizes that this is a "service system," and in most cases technical decisions regarding the rules and regulations will be resolved in favor of the member.

CLAIMS DIVISION:

This division has the responsibility for handling claims submitted for payment to Plan I, the City Administered Health Plan. This plan is divided into two parts:

1) Basic Benefits Claims - these claims are evaluated in this office and paid through the Controller's office on a periodic basis. An average of about 1600 claims are processed each week, representing an annual expenditure of some $4,000,000.

2) Major Medical Claims - these claims are assembled initially and processed in this office and forwarded to the Major Medical carrier for review and payment. Checks in payment of these claims are returned to this office for distribution. Weekly volume is about 500 claims with an annual value of about $1,500,000. There has been an increase of over 200% in the volume of such claims in recent years, due to successive reductions in the deductible amount required to qualify for major medical benefits. During this period no increase in staff has been allowed in the annual budget.

The present staff of the claims division is adequate to handle the work load if every employee is present every day. This is patently impossible since this staff

is entitled collectively to approximately one man year in vacation and sick leave allowances. It is then evident that the claims division averages only 90% attendance when 100% is required to maintain the bare necessities of production.

The Claims Division must also maintain close liaison with the Compensation Claims Division of the Retirement System in order to ensure refund of monies expended on cases later determined to have been industrial in origin. Close surveillance of this aspect is required to protect the financial structure of the System.

PUBLIC HEARING:

In accordance with Charter provisions, a public hearing was held January 23, 1975. Members, both active and retired, organization representatives, and visitors were on hand to offer comments, suggestions and, in some instances, complaints and criticisms of the System. Representatives from two outside plans were present, and many of the questions were directed to representatives of Kaiser and Blue Cross. The President of the Board, Commissioner Harry Paretchan, reviewed the System's previous year's operations; and Mr. Juan B. Rael of the firm of Rael and Letson, the System's Actuaries, commented on the rates, the coverages, and the gain and loss specifics of the preceding year. The employee organizations were outspoken in their praise for the System generally, and several improvements were recommended. The main issue seemed to be maximum coverage with minimum cost.

ACTUARIAL STATUS:

Juan B. Rael, Jr., our full time Actuary, presents a detailed report monthly with current figures for all financial trends and transactions of the System. His report monthly and yearly to date include Plan I basic benefits, major medical particularly, and general reference by comparison is made to the other two plans, Kaiser and Blue Cross.

It should be noted for this fiscal period that the Health Service System enjoyed a slightly less than 100% loss ratio, i.e., all the revenue received was expended for medical benefits and service with a slight surplus. This is a very difficult plateau to reach in a municipal reserve type system. It should be further noted that this actuarial result was attained with only a minimal rate increase.

ANALYSIS OF SYSTEM FROM MEDICAL VIEWPOINT:

From a medical viewpoint, this past year has been a very satisfactory one for the operation of the Health Service System. The profound changes in the health delivery system of the nation that loomed before us did not materialize and we were able to continue our progressive program in the delivery of health care through the accepted channel.

In the face of the inflationary spiral that has affected all segments of our economy, and with the added complication of greatly increased malpractice premiums, we have fairly well met our members' needs for adequate medical coverage. We have increased our Basic Benefits for hospital charges, physicians' office calls, home calls, and hospital calls and have greatly increased our maternity benefits.

The development of more sophisticated (and more costly) diagnostic modalities continues, and step by step medicine has instituted new advances in treatment. Each year these costs must be considered in our rate structure.

Our Basic Plan and our Major Medical Carrier (Phoenix Mutual) have done, we believe, an excellent job in planning for and caring for our members' medical needs, and we hope that we can be as successful in the future.

The alternate plans offered to City employees, Kaiser and Blue Cross, have likewise been able to deliver excellent and comprehensive coverage during the past year.

No plan can remain static and must constantly be reviewed as to its benefits and coverage. We are no exception. Increased benefits for psychiatric care needs consideration. The problem of alcoholism as a medical disease is a concept that should be developed. Provision for Extended Care beyond that provided by Major Medical and Convalescent Care, is a type of coverage that may be investigated. Dental Care is a portion of good health care that has not been covered. Such care is an integral part of a person's good health and provision should be made for some type of coverage.

In conclusion, we of the Health Service System, are proud of the operation of our Department and of the types and extent of coverage it supplies to the employees of the City and County of San Francisco and their dependents.

GENERAL ACCOUNTING INFORMATION AND BUDGETARY COMPARISONS:

The revenues received from members contributions per E.D.P.'s computer runs for fiscal year ending June 30, 1975 were $15,770,545.89. Please refer to "Health Service System's Statement of Revenue and Expenditures for Fiscal Year 1974-1975" shown as Exhibit B. Particular attention is called to the total revenue available column.

The actual expenditures for fiscal year 1974-1975 consisting of payments for medical claims for Plan I - City Administered Plan, premiums due Phoenix Mutual Life Insurance Company, our Major Medical contract underwriter, Kaiser Foundation Health Plan, and Blue Cross Hospital Service Plan - totaled $15,256,233.78.

The difference between revenues received from members contributions and that of actual expenditures for the fiscal year was offset by City Matching fund, the Retired Subsidy fund and the Health Service System's interest received on certificated deposits plus the reserve carried forward from the preceding fiscal year.

The malpractice insurance problem distorted the operational picture and created a somewhat misleading surplus account.

The Health Service System presently holds a contingency reserve account in the amount of $1,600,000.00 on certificated deposits with local banks. The maturity dates on these deposits are staggered in the light of availability and obtaining the highest yields.

Please refer to Exhibit A, Comparison of Expenditures with Budget Appropriations, and Exhibit B, Statement of Revenue and Expenditures, attached and incorporated in this report.

RECOMMENDATIONS:

1) Increase in Table of Organization
An increase in the claims processing staff has become a necessity. The work load has reached a point where the illness or loss of one person on vacation, etc., can at times cause an undesirable backlog and delay in payment of claims.

2) Closer Accounting Control
An autonomous accounting department is a necessity for an operation such as the Health Service System. The inflow and outflow of receipts and disbursements is such that a current and readily available financial position is mandatory.

HEALTH SERVICE SYSTEM

COMPARISON OF EXPENDITURES WITH ORIGINAL

BUDGET APPROPRIATIONS FOR FISCAL YEAR 1974-1975

APPROPRIATION FOR	ORIGINAL BUDGET APPROPRIATION	EXPENDITURES	DIFFERENCES
Permanent Salaries	298,319.00	278,213.00	20,106.00
Overtime	450.00	441.00	9.00
Temporary Salaries	1,592.00	-	1,592.00
Fees and Other Compensations	100.00	125.00	-25.00
Contractual Services	13,322.00	13,632.00	-310.00
Materials and Supplies	3,500.00	4,722.00	-1,222.00
Fixed Charges	330.00	105.00	225.00
Mandatory Fringe Benefits	72,994.00	63,970.00	9,024.00
Services of Other Depts.	151,040.00	210,600.00	-59,560.00
TOTALS	541,647.00	571,808.00	-30,161.00

HEALTH SERVICE SYSTEM

STATEMENT OF REVENUE AND EXPENDITURES FOR F.Y. 1974 - 1975

REVENUES

1974-1975 MONTH	PRIOR YEAR RESERVE	CONTRIBUTIONS	MATCHING	SUBSIDY	REFUND FROM CLAIMS	AVAILABLE
JULY	31,572.78	693,457.27	417,304.47	122,893.50	13,110.64	1,278,338.66
AUGUST		624,742.59	413,524.05	127,777.43	4,625.01	1,170,669.08
SEPTEMBER		640,278.01	405,245.48	121,079.33	2,506.90	1,169.109.72
OCTOBER		714,066.77	435,710.26	148,441.99	3,324.20	1,301,543.22
NOVEMBER		684,021.12	429,198.53	133,900.60	2,168.73	1,249,288.98
DECEMBER		681,826.87	427,762.30	136,038.96	8,219.77	1,253,847.90
JANUARY		917,259.01	575,479.20	134,985.19	5,143.96	1,632,867.36
FEBRUARY		677,611.75	432,616.44	133,347.44	3,346.58	1,246,922.21
MARCH		691,682.42	434,658.95	134,764.57	8,680.37	1,269,786.31
APRIL		683,850.41	437,387.57	138,810.31	5,355.90	1,265,404.19
MAY		666,784.44	437,752.58	113,584.21	8,505.83	1,226,627.06
JUNE		948,615.33	591,735.02	162,724.33	3,066.52	1,706,141.20
	31,572.78	8,624,195.99	5,438,374.85	1,608.347.86	68,054.41	15,770.545.89

EXPENDITURES

1974-1975 MONTH	CURRENT YEAR BASIC	MAJOR MEDICAL	KAISER	BLUE CROSS	KAISER MATCHING SURPLUS	PAYMENTS	BALANCE
JULY	269,232.84	104,209.28	556,723.13	225,139.19	9,857.44	1,165.161.88	113,176.78
AUGUST	312,076.48	103,238.75	547,277.17	218,468.65	10,043.24	1,191,104.29	-20,435.21
SEPTEMBER	275,142.20	97,855.27	530,606.67	206,409.47	10,042.72	1,120,056.33	49,053.39
OCTOBER	439,387.27	113,071.93	569,738.26	235,231.38	10,392.08	1,367.820.92	-66,277.70
NOVEMBER	274,529.01	106,676.10	556.519.51	221,890.96	10,373.24	1,169.988.82	79,300.16
DECEMBER	385,642.56	106,127.90	557,732.24	221,904.02	10,394.20	1,281,800.92	-27,953.02
JANUARY	335,121.66	126,277.46	746,825.52	294,097.44	14,042.12	1,516,364.20	116,503.16
FEBRUARY	198,934.08	103,684.54	557,457.35	223,523.69	10,528.56	1,094,128.22	152,793.99
MARCH	364,036.55	109,474.63	565,269.01	224,080.43	10,633.12	1,273,493.74	-3,707.43
APRIL	441,363.93	108,149.81	562,628.41	224,211.21	10,632.08	1,346,985.44	-81,581.25
MAY	329,546.84	97,145.55	551,788.59	221,010.75	10,637.32	1,210,129.05	16,498.01
JUNE	289,920.62	139,481.81	771,082.45	304,183.97	14,531.12	1,519,199.97	186,941.23
	3,914,934.04	1,315.393.03	7,073,648.31	2,820,151.16	132,107.24	15,256.233.78	514.312.11

PHILIP J. KEARNEY
EXECUTIVE DIRECTOR

ANNUAL DEPARTMENTAL REPORT TO THE MAYOR

HEALTH SERVICE SYSTEM

Fiscal Year July 1, 1975 - June 30, 1976

HISTORY:
The Health Service System was established by Charter Amendment in March of 1937 and has been conducting business officially since October 1938. In 1961, the Health Service System became a fully budgeted department of the City of San Francisco and has been operating within its budget since that time.

The System was unique when it was established because it provided for a self-funded (uninsured) medical plan and today it is one of the few county or municipal plans in the United States which handles its medical program on a self-funded basis.

MEDICAL PLANS OFFERED:
Presently, there are three plans offered to the membership at large. Plan I, the City Administered Plan; Plan II, Kaiser Foundation Health Plan; and Plan III, Blue Cross of Northern California.

Basic benefits for the City Administered Plan are processed and paid through the Health Service System office. Phoenix Mutual Life Insurance Company is our underwriter for our major medical plan in connection with the City Administered Plan. The Kaiser Plan, considered to be a community rated plan, underwrites its own major medical contract, as does Blue Cross.

The above-named plans provide adequate and diversified coverage and, in most instances, reasonable premium rates to the membership.

HEALTH SERVICE BOARD:
The Health Service Board is entrusted with the responsibility of providing the best possible medical coverage at a reasonable cost to all its members. The Board presently is composed of three members elected from the membership at large, two ex-officio members from City government, and two members appointed by the Mayor representing business interest in San Francisco:

Employee Members:	Mr. F. Walter Johnson Retirement System
	Mr. Frank Lucibello Public Health
	Mr. Harry Paretchan San Francisco Fire Department
Ex-Officio Members:	Hon. John J. Barbagelata Chairman Finance Committee San Francisco Board of Supervisors
	Mr. Thomas A. Toomey Representing Mr. Thomas M. O'Connor, City Attorney

Appointed Members: Abraham Bernstein, M.D., President
Practicing Physician

Mr. Robert E. Hassing
Insurance Executive
Joseph A. Wynne Agency

It is felt that the composition of the Health Service Board presents a very well-balanced working unit. There is a close liaison established between the City employees, City governmental officials, and downtown business interests.

RATES:
The Health Service Board continues to survey currently through a committee structure comparative premium rates throughout the medical field. Periodically, the findings and changes uncovered as a result of the survey are presented to the full Board for consideration, and are implemented in rate changes at the commencement of each fiscal year. It might be added that the Board is primarily responsible for setting the rates for Plan I and for the major medical carrier. For the remaining plans offered, it becomes the Board's responsibility to determine whether or not the contract rates, as presented, are in line with the benefits provided.

CITY'S CONTRIBUTION TO ACTIVE AND RETIRED EMPLOYEES MEDICAL INSURANCE PREMIUMS:
Effective July 1, 1975, the City and County of San Francisco contributed $24.71 per month toward the cost of an active employee's medical insurance coverage. This $24.71 represented an increase of $1.55 over the City's contribution for the previous fiscal year and represented 100% of the average being contributed by the ten (10) most populous counties in the State of California. Dependents are not subsidized; the City's contribution is for the member only.

RETIRED SUBSIDY:
The City also subsidizes retired employees. The Charter specifically states that no retired employee will pay any more than his active counterpart. The Retired subsidy will then fluctuate as the rates for the entire System fluctuate. As an example, the contract rate for a single active member in Plan I for the fiscal year 1975-1976 was $25.21 per month. The rate for a retired single member was $46.09 per month. When matching fund of $24.71 was subtracted from the $25.21 rate, the active employee was paying .50¢ per month out of pocket. His retired counterpart could pay no more than .50¢, so subtracting the .50¢ payment by the active employee from the $46.09 rate for the retired employee, we arrive at a figure in the amount of $45.59 (the retired subsidy). It is interesting to note that the City contributed $45.59 per month for a retired member and only $24.71 per month for an active employee for this fiscal year.

MEMBERSHIP DIVISION:
The Membership Division of the Health Service System underwent a partial reorganization during the previous fiscal year, and the Division as reorganized is functioning very well. There are presently some 26,127 active employees, approximately 7,345 retired employees, and 540 resigned employees and residual members. When the dependents of these groups are added, the Membership Division is exercising control over some 70,706 people. These figures clearly indicate the ever increasing workload of the department.

A very close liaison is established between Data Processing and Payroll Deductions. Down through the years, as the bugs have been ironed out of E.D.P., the working conditions existing between Data Processing and this Membership Division have been streamlined to a great degree. The personnel of this department have been briefed and indoctrinated in the working of the Data Processing Center, and are acquainted with the mutual problems that exist between the two departments.

The membership Division also works closely with the Retirement System Staff. A list of new retirees is forwarded to the Health Service System monthly. The rate structure changes and Medicare membership must be considered; plan selection is a factor; and finally, starting off the retiree with new payroll deductions, etc., is implemented. This operation requires a cooperative effort between this Department, the Retirement System and the Controller's E.D.P. Division.

RULES AND REGULATIONS:

The Health Service Board, through its committee structure, over the past years, has completely re-written the rules and regulations for this System. Updated copies to include current changes are issued periodically to each member. In addition, each member is provided with a Comparison of Plans sheet outlining benefits and rates for the fiscal year. A digest of the important facets of the rules and regulations is also printed on the Comparison of Plans sheet. The two most important items would be the month of May sign-up period and the three conditions for being carried in an Exempt status in the System; (1) adequate outside coverage, (2) religious belief, and (3) annual salary in excess of $14,000.

The Health Service Board realizes that this is a "service system," and in most cases technical decisions regarding the rules and regulations will be resolved in favor of the member.

CLAIMS DIVISION:

This division has the responsibility for handling claims submitted for payment to Plan I, the City Administered Health Plan. This plan is divided into two parts;

1) Basic Benefits Claims - these claims are evaluated in this office and paid through the Controller's office on a periodic basis. An average of about 1700 claims are processed each week, representing an annual expenditure of some $4,216,958.00

2) Major Medical Claims - these claims are assembled initially and processed in this office and forwarded to the Major Medical carrier for review and payment. Checks in payment of these claims are returned to this office for distribution. Weekly volume is about 600 claims with an annual value of about $1,686.080. There has been an increase of over 200% in the volume of such claims in recent year, due to successive reductions in the deductible amount required to qualify for major medical benefits. During this period no increase in staff has been allowed in the annual budget. The situation was worsened by the deletion of two permanent positions effective 7-1-76.

The present staff of the claims division is inadequate to handle the workload if every employee is present every day. This is patently impossible since this staff

is entitled collectively to in excess of one employee work year in vacation and sick leave allowances. When the affects of the great influx into Plan I is studied in depth, it becomes immediately apparent that the present staff is unable to cope with the additional workload. To add to this dilemma, the budget analysts none of whom ever come over to the Health Service System to review the operation, deleted two (2) permanent budgeted positions from this small department for fiscal year 1976-1977.

The Claims Division must also maintain close liaison with the Compensation Claims Division of the Retirement System in order to ensure refund of monies expended on cases later determined to have been industrial in origin. Close surveillance of this aspect is required to protect the financial structure of the System.

PUBLIC HEARING:
In accordance with Charter provisions, a public hearing was held January 15, 1976. Representatives from two outside plans were present, and many questions were directed to representatives of Kaiser and Blue Cross. The President of the Board, Commissioner Harry Paretchan, reviewed the System's previous year's operations; and Mr. Juan B. Rael, Jr., of the firm of Rael and Letson, the System's Actuaries, commented on the rates, the coverages, and the gain and loss specifics of the preceding year. Those in attendance were outspoken in their praise for the System generally, and several improvements were recommended. The main issue seemed to be maximum coverage with minimum cost.

ACTUARIAL STATUS:
Mr. Juan B. Rael, Jr., our full time Actuary, presents a detailed report monthly with current figures for all financial trends and transactions of the System. His report monthly and yearly to date include Plan I basic benefits, major medical particularly, and general reference by comparison is made to the other two plans, Kaiser and Blue Cross. Please refer to Actuarial Report attached as Exhibit B.

It should be noted for this fiscal period that the Health Service System enjoyed a 92% loss ratio, i.e., all revenue received was expended for medical benefits but with a larger than normal surplus generated. Benefits will be increased to utilize this surplus and an effort will be made to end up with a 100% loss ratio for the next fiscal year. The System operated on a 100% loss ratio for the preceeding two (2) fiscal years, a very difficult plateau to reach in a municipal reserve type system.

ANALYSIS OF SYSTEM FROM MEDICAL VIEWPOINT:
The year that has just passed was one of quiet satisfaction for the Health Service Board, the administration of the System, and the staff involved in its operation.

We have been able to cope with the increased costs of hospitalization and medical care; add additional benefits and provide for the costs of the newer sophisticated expensive procedures and still maintain our financial solvency and services.

The alterations anticipated in the health delivery system of our nation did not occur, and therefore no changes became necessary to incorporate such schemes into our Plan. Whether National Insurance of some sort will become an actuality is for Congress to decide. All we can do at the present is watch, wait, and be prepared to adjust the Health Service System to conform.

During this year we have been able to increase our hospital allowances, out-patient X-Ray and laboratory, ambulance allowances, maternity benefits, and medical fees to meet the higher costs incurred by our members. A new Vision Care Plan was instituted both for members and their dependents. Newborns are now considered members from birth, and the new expensive Neo-Natal Intensive Care Units are covered for the first time. This last benefit, in our estimation, removes a great deal of the financial strain that may devolve on the younger families associated with Plan I of the Health Service System.

Our relationship with Phoenix Mutual, our Major Medical carrier, has been a most cordial and cooperative one. Between our Basic and Major Medical coverages, the members of Plan I of the Health Service System are receiving excellent coverage and service.

Fine and comprehensive coverage has been provided by our alternate plans, Blue Cross and Kaiser, and our rapport with these carriers has been most satisfactory. The Health Plan of the San Francisco Medical Society has performed well the task of processing the Blue Cross medical claims of our members.

Are there areas of improvement? Of course. Dental care is no longer a stepchild of health care but an integral part of the whole health concept. Alcoholism is more and more considered a major medical, psychological, and social problem and should be treated as such. Psychiatric care could be broadened and extended with great value not only personally to the member, but to the family. Provision for convalescent care and home visits by a health worker including physical therapists should be studied.

Yearly we study the trends of medicine and surgery and the needed changes necessary to provide the best coverage affordable. So far we have been able to do this successfully.

In concluding this report, we look with satisfaction, but not smugness, on what has been accomplished during the past year. We hope that such success will continue as the results of our efforts. You may be assured that we will continue to look forward and not be mired in complacency. (Report by J. T. Fitzgerald, M.D., Medical Advisor)

GENERAL ACCOUNTING INFORMATION AND BUDGETARY COMPARISONS:

The revenues received from members' contributions per E.D.P.'s computer runs for fiscal year ending June 30, 1976 were $17,390,882.95. Please refer to "Health Service System's Statement of Revenue and Expenditures for Fiscal Year 1975-1976" shown as Exhibit B. Particular attention is called to the total revenue available column.

The actual expenditures for fiscal year 1975-1976 consisting of payments for medical claims for Plan I - City Administered Plan, premiums due Phoenix Mutual Life Insurance Company, our Major Medical contract underwriter, Kaiser Foundation Health Plan, and Blue Cross Hospital Service Plan - totaled $16,828,685.26.

The difference between revenues received from members' contributions and that of actual expenditures for the fiscal year was offset by City Matching fund, the Retired Subsidy fund and the reserve carried forward from the preceding fiscal year.

The malpractice insurance problem continues to distort the operational picture and to create a somewhat misleading surplus account.

The Health Service System presently holds a contingency reserve account in the amount of $2,000,000.00 on certificated deposits with local banks. The maturity dates on these deposits are staggered in the light of availability and obtaining the highest yields.

Please refer to Exhibit A, Comparison of Expenditures, Fiscal Years 1974-1975 and 1975-1976, and Exhibit B, Statement of Revenue and Expenditures, attached and incorporated in this report.

RECOMMENDATIONS:

1) Increase in Table of Organization
An increase in the claims processing staff has become a necessity. The workload has reached a point where the illness or loss of one person on vacation, etc., can at times cause an undesirable backlog and delay in payment of claims.

2) Plan I, the City Administered Plan is presently offering the best medical delivery system for the money in the State of California. The plan has been held up as a model to the other 57 counties in the State outlining to them how a self-funded system should operate. The benefits offered have made the City Plan most attractive to our membership. The present staff cannot handle the increased workload; yet two permanent positions were cut from the table of organization for the fiscal year 1976-1977.

It is urgently requested that your staff look into this problem immediately.

3) Closer Accounting Control
An autonomous accounting department is a necessity for an operation such as the Health Service System. The inflow and outflow of receipts and disbursements is such that a current and readily available financial position is mandatory. The volume of work passing through this small department is unbelievable.

HEALTH SERVICE SYSTEM

COMPARISON OF EXPENDITURES

FISCAL YEARS 1974-1975 AND 1975-1976

	1974-1975	1975-1976
Salaries	278,212.68	273,260.49
Overtime	440.72	383.16
Fees and Other Compensation	125.00	150.00
Contractual Services	13,632.56	13,681.00
Materials and Supplies	4,721.65	3,292.00
Fixed Charges	105.00	171.00
Retirement Allowances	44,423.17	43,281.68
Social Security Tax	13,465.01	12,909.21
Health Service Allowances	6,082.61	6,363.60
Controller's E.D.P.	210,600.00	186,730.00
Services of Other Departments (Election of B.M.)		1,641.00
TOTAL	571,808.40	541,863.14

HEALTH SERVICE SYSTEM

STATEMENT OF REVENUE AND EXPENDITURES FOR F.Y. 1975-1976

REVENUES

1975-1976 MONTH	PRIOR YEAR RESERVE	CONTRIBUTIONS	MATCHING	SUBSIDY	REFUND FROM CLAIMS	AVAILABLE
JULY	$ 314,312.11	$ 782,876.93	$ 386,098.00	$ 136,582.64	$ 894.80	$ 1,620,764.48
AUGUST		824,900.36	382,919.17	149,023.14	6,962.73	1,363,805.40
SEPTEMBER		803,947.95	392,869.77	143,467.92	3,906.53	1,344,192.17
OCTOBER		840,953.50	402,092.47	153,184.00	2,197.22	1,398,427.19
NOVEMBER		828,658.71	430,136.43	154,444.30	5,511.02	1,418,750.46
DECEMBER		1,113,036.00	549,349.00	152,028.08	13,574.83	1,827,987.91
JANUARY		815,059.97	410,832.54	148,443.24	3,859.99	1,378,195.74
FEBRUARY		616,604.90	412,363.01	155,478.03	4,440.52	1,188,886.46
MARCH		812,070.73	411,875.58	161,503.82	2,371.50	1,387,821.63
APRIL		1,032,176.37	540,861.99	155,339.86	6,408.77	1,734,786.99
MAY		714,108.89	405,474.13	162,493.37	9,292.52	1,291,368.91
JUNE		854,066.60	415,084.10	161,653.64	5,091.27	1,435,895.61
TOTAL	$ 314,312.11	$10,038,460.91	$ 5,139,956.19	$ 1,833,642.04	$ 64,511.70	$ 17,390,882.95

EXPENDITURES

1975-1976 MONTH	CURRENT YEAR BASIC	MAJOR MEDICAL	KAISER	BLUE CROSS	PAYMENTS	BALANCE
JULY	$ 253,515.25	$ 127,693.06	$ 624,228.73	$ 202,509.12	$ 1,207,946.16	$ 412,818.32
AUGUST	398,205.47	137,717.01	645,528.22	212,690.54	1,394,141.24	-30,335.84
SEPTEMBER	352,661.99	133,953.39	641,320.42	206,370.86	1,334,306.66	9,885.51
OCTOBER	411,557.02	138,755.24	671,487.32	211,264.02	1,433,063.60	-34,636.41
NOVEMBER	343,521.93	138,906.35	688,358.19	209,209.25	1,379,995.72	38,754.74
DECEMBER	331,571.24	162,095.42	899,516.98	281,134.89	1,674,318.53	153,669.38
JANUARY	322,441.25	136,428.96	662,697.58	208,831.82	1,330,399.61	47,796.13
FEBRUARY	339,117.17	137,304.69	668,426.75	208,157.55	1,353,006.16	-164,119.70
MARCH	418,790.19	138,721.61	666,192.17	206,766.08	1,430,470.05	-42,648.42
APRIL	314,580.92	158,875.42	849,966.89	263,106.14	1,586,529.37	148,257.62
MAY	368,555.51	134,037.49	612,674.28	180,331.62	1,295,598.90	-4,229.99
JUNE	362,440.64	141,592.24	688,192.08	216,684.30	1,408,909.26	26,986.35
TOTAL	$ 4,216,958.58	$1,686,080.88	$ 8,318,589.61	$ 2,607,056.19	$ 16,828,685.26	$ 562,197.69

PHILIP J. KEARNEY
EXECUTIVE DIRECTOR

ANNUAL DEPARTMENTAL REPORT TO THE MAYOR

HEALTH SERVICE SYSTEM

Fiscal Year July 1, 1976 - June 30, 1977

HISTORY:
The Health Service System was established by Charter Amendment in March of 1937 and has been conducting business officially since October 1938. In 1961, the Health Service System became a fully budgeted department of the City of San Francisco and has been operating within its budget since that time.

The System was unique when it was established because it provided for a self-funded (uninsured) medical plan and today it is one of the few county or municipal plans in the United States which handles its medical program on a self-funded basis.

MEDICAL PLANS OFFERED:
Three plans were offered to the membership at large in this fiscal year. Plan I, the City Administered Plan; Plan II, Kaiser Foundation Health Plan; and Plan III, Blue Cross of Northern California.

Basic benefits for the City Administered Plan are processed and paid through the Health Service System office. Phoenix Mutual Life Insurance Company is our underwriter for our major medical plan in connection with the City Administered Plan. The Kaiser Plan, considered to be a community rated plan, underwrites its own major medical contract

The above-named plans provide adequate and diversified coverage and, in most instances, reasonable premium rates to the membership.

HEALTH SERVICE BOARD:
The Health Service Board is entrusted with the responsibility of providing the best possible medical coverage at a reasonable cost to all its members. The Board presently is composed of three members elected from the membership at large, two ex-officio members from City government, and two members appointed by the Mayor representing business interest in San Francisco:

Employee Members:	Mr. F. Walter Johnson Retirement System
	Mr. Frank Lucibello Public Health
	Mr. Harry Paretchan San Francisco Fire Department
Ex-Officio Members:	Hon. John J. Barbagelata Chairman Finance Committee San Francisco Board of Supervisors
	Mr. Thomas A. Toomey Representing Mr. Thomas M. O'Connor, City Attorney

Appointed Members: Abraham Bernstein, M.D., President
Practicing Physician

Mr. Robert E. Hassing
Insurance Executive
Joseph A. Wynne Agency

It is felt that the composition of the Health Service Board presents a very well-balanced working unit. There is a close liaison established between the City employees, City governmental officials, and downtown business interests.

RATES:
The Health Service Board continues to survey currently through a committee structure comparative premium rates throughout the medical field. Periodically, the findings and changes uncovered as a result of the survey are presented to the full Board for consideration, and are implemented in rate changes at the commencement of each fiscal year. It might be added that the Board is primarily responsible for setting the rates for Plan I and for the major medical carrier. For the remaining plans offered, it becomes the Board's responsibility to determine whether or not the contract rates, as presented, are in line with the benefits provided.

CITY'S CONTRIBUTION TO ACTIVE AND RETIRED EMPLOYEES MEDICAL INSURANCE PREMIUMS:
Effective July 1, 1976, the City and County of San Francisco contributed $27.30 per month toward the cost of an active employee's medical insurance coverage. This $27.30 represented an increase of $2.59 over the City's contribution for the previous fiscal year and represented 100% of the average being contributed by the ten (10) most populous counties in the State of California. Dependents are not subsidized; the City's contribution is for the member only.

RETIRED SUBSIDY:
The City also subsidizes retired employees. The Charter requires that Active and Retired employees pay the same amount out of pocket. The Retired Subsidy will then fluctuate as the rates for the entire System fluctuate. As an example, the contract rate for a single active member in Plan I for the fiscal year 1976-77 was $28.30 per month. The rate for a retired single member was $53.32 per month. When the City contribution, $27.30, was subtracted from the $28.30 rate, the active employee was paying $1.00 per month out of pocket. His retired counterpart could then pay no more than $1.00 out of pocket. Subtracting the $1.00 payment by the active employee from the $53.32 rate for the retired employee, we arrive at a figure of $52.32 (the Retired Subsidy). It is interesting to note that the City contributed $52.32 per month for a retired member and only $27.30 per month for an active employee for this fiscal year.

MEMBERSHIP DIVISION:
The Membership Division of the Health Service System underwent a partial reorganization during the previous fiscal year, and the Division as reorganized is functioning very well. There are presently 25,794 active employees, 8,129 retired employees, and 1,429 resigned employees and residual members. When the dependents of these groups are added, the Membership Division is exercising control over some 72,000. These figures clearly indicate the ever increasing workload in this department.

A very close liaison is established between Data Processing and Payroll Deductions. Down through the years, as the bugs have been ironed out of E.D.P., the working conditions existing between Data Processing and this Membership Division have been streamlined to a great degree. The personnel of this department have been briefed and indoctrinated in the working of the Data Processing Center, and are acquainted with the mutual problems that exist between the two departments.

The membership Division also works closely with the Retirement System staff. A list of new retirees is forwarded to the Health Service System monthly. The rate structure changes and Medicare membership must be considered; plan selection is a factor; and finally, starting off the retiree with new payroll deductions, etc., is implemented. This operation requires a cooperative effort between this Department, the Retirement System and the Controller's E.D.P. Division.

RULES AND REGULATIONS:
The Health Service Board, through its committee structure, over the past years, has completely re-written the rules and regulations for this System. Updated Rules to include current changes were printed in January 1, 1976 and are available to each member. In addition, each member is provided with a Comparison of Plans sheet outlining benefits and rates for the fiscal year. A digest of the important facets of the rules and regulations is also printed on the Comparison of Plans sheet. The two most important items would be the month of May sign-up period and the three conditions for being carried in an Exempt status in the System; (1) adequate outside coverage, (2) religious belief, and (3) annual salary in excess of $14,000.

The Health Service Board realizes that this is a "service system," and in most cases technical decisions regarding the rules and regulations will be resolved in favor of the member.

CLAIMS DIVISION:
This division has the responsibility for handling claims submitted for payment to Plan I, the City Administered Health Plan. This plan is divided into two parts;

1) Basic Benefits Claims - about 2,200 claims are received each week. When this figure is multiplied by 52, we arrive at a figure in excess of 110,000 for the year. The expenditure figure for Basic Benefits claims was $5,111,516.63, very close to a one million dollar increase over the previous fiscal year.

2) Major Medical Claims - these claims are assembled initially and processed in this office and forwarded to the Major Medical carrier for review and payment. Checks in payment of these claims are returned to this office for distribution. Weekly volume is approximately 800 claims with an expenditure of $2,081,062.39 for the fiscal year 1976-1977.

3) Medicare Claims - Approximately 250 Medicare claims are processed weekly. They are forwarded to Phoenix Mutual for further processing and payment.

SPECIAL NOTE:
The present staff of the Claims Division is absolutely inadequate to handle the increased workload and the ever increasing volume amplifies the deficiency daily. When the affects of the great influx into Plan I is studied in depth, it becomes

immediately apparent that the present staff is unable to cope with the additional workload. To add to this dilemma, the budget analysts none of whom ever come over to the Health Service System to review the operation, deleted two (2) permanent budgeted positions from this small department for fiscal year 1976-1977.

A supplemental appropriation was requested in the early part of the fiscal year and Mayor Moscone realizing the urgency of the matter classified the request 'Emergency' and two positions were replaced.

The Claims Division must also maintain close liaison with the Compensation Claims Division of the Retirement System in order to ensure refund of monies expended on cases later determined to have been industrial in origin. Close surveillance of this aspect is required to protect the financial structure of the System.

PUBLIC HEARING:
In accordance with Charter provisions, a public hearing was held on January 20, 1977. Representatives from two outside plans were present, and many questions were directed to representatives of Kaiser and Blue Cross. The President of the Board, Commissioner Abraham Bernstein, M.D., reviewed the System's previous year's operations; and Mr. Juan B. Rael, Jr., of the firm of Rael and Letson, the System's Actuaries, commented on the rates, the coverages, and the gain and loss specifics of the preceding year. Those in attendance were outspoken in their praise for the System generally, and several improvements were recommended. The main issue seemed to be maximum coverage with minimum cost.

ACTUARIAL STATUS:
Mr. Juan B. Rael, Jr., our full time Actuary, presents a detailed report monthly with current figures for all financial trends and transactions of the System. His report monthly and yearly to date include Plan I basic benefits, major medical particularly, and general reference by comparison is made to the other two plans, Kaiser and Blue Cross. Please refer to Actuarial Report attached as Exhibit B.

It should be noted for the fiscal period that the Health Service System experienced a 108% loss ratio. All revenues received were expended for medical benefits plus the erosion of a portion of the System's reserves. The reserves were utilized for the vision care plan and to expend the surplus generated in the previous fiscal year.

ANALYSIS OF SYSTEM FROM MEDICAL VIEWPOINT:
It is most gratifying to report that during the year July 1976 - June 1977 we have been able to increase the basic benefits of Plan I of the Health Service.

Briefly, on January 4, 1977 we increased our daily hospital room allowance to $130.00 per day and miscellaneous charges to $2,600.00 per year. Physician office calls and hospital visits were increased to $14.00, home visits to $20.00 and night calls to $27.50. The basic surgical unit was increased to $40.00 per unit based on the 1974 edition of the California RVS, correlated with the 1969 Schedule. For anesthesia services we increased the unit value based on the same correlation to $11.00 on July 1, 1977.

All the changes made, we feel, were significant and brought our basic Health Service benefits in line with the increased cost of medical care.

It was unfortunate for all concerned that Blue Cross of Northern California found it unfeasible to continue their contract with us in fiscal year 1977-1978 as the coverage they provided and the claims service rendered by the San Francisco Medical Society Health Plan, Inc. was without fault.

Our support with Kaiser Foundation Health Plan and with our major medical carrier, Phoenix Mutual Life Insurance Company, continues to be excellent. The additional clerical services rendered us by Phoenix was most important in carrying us over a very difficult period of shortage of personnel.

The Kaiser plan for some time has offered individual coverage for temporary employees of the City and County of San Francisco, and, additionally, negotiations have been completed to offer these employees (effective July 1, 1977) individual coverage under the Children's Hospital Health Plan. With either of these plans there is not a contribution from the City and County.

The Vision Care Plan which was instituted last year has been most successful and has been extended to those members of the Health Service under Medicare.

As to the future. The present status and type of National Insurance is still undetermined, but I believe some type will be implemented. The question is 'when'. We can do little at this time but be aware of its proximity and sketch out means of its incorporation with our System.

Is there access of improvement? Of course. Those hiatuses stated in our report of 1975-1976 still exist. Dental care, alcoholism, broadened psychiatric care, convalescent and home visits by a health care worker or physical therapists are all extensions of our coverage that should be studied in depth and implemented if possible.

In conclusion, our feelings are stated succinctly in the closing paragraph for our report for the year 1975-1976: "We look with satisfaction, but not smugness, on what has been accomplished during the past year. We hope that such success will continue as the results of our efforts. You may be assured that we will continue to look forward and not be mired in complacency." (Report by J. T. Fitzgerald, M.D. Medical Advisor)

GENERAL ACCOUNTING INFORMATION AND BUDGETARY COMPARISONS:

The revenues received from members' contributions per E.D.P.'s computer runs for fiscal year ending June 30, 1977 were $20,843.777.06. Please refer to Health Service System Statement of Revenue & Expenditures for Fiscal Year 1976-1977 shown as Exhibit B. Particular attention is called to the total revenue available column.

The actual expenditures for fiscal year 1976-1977 consisting of payments for medical claims for Plan I - City Administered Plan, premiums due Phoenix Mutual Life Insurance Company, our Major Medical contract underwriter, Kaiser Foundation Health Plan, and Blue Cross of Northern California - totaled $20,261,493.44.

The difference between revenues received from members' contributions and that of actual expenditures for the fiscal year was offset by City Matching fund, the Retired Subsidy fund and the reserve carried forward from the preceding fiscal year.

The Health Service System presently holds a contingency reserve account in the amount of $2,000,000.00 on certificated deposits with local banks. The maturity dates on these deposits are staggered in the light of availability and obtaining the highest yield.

Please refer to Exhibit A, Comparison of Expenditures, Fiscal Years 1975-1976 and 1976-1977. This exhibit and Exhibit B are attached and incorporated as part of this report.

RECOMMENDATIONS:

1) Increase in Table of Organization
The work volume has increased to the point where it has become mandatory to work a night shift. The physical plant would not allow working room for three (3) additional process clerks. (Classification 1474)

2) Plan I, the City Administered Plan, is presently offering the best medical delivery system for the money in the State of California. The plan has been held up as a model to the other 57 counties in the State outlining to them how a self-funded system should operate. The benefits offered have made the City Plan most attractive to our membership. The present staff cannot handle the increased workload; yet two permanent positions were cut from the table of organization for the fiscal year 1976-1977. They were replaced on an emergency supplemental appropriation.

THE ADDITIONAL POSITIONS REFERRED TO IN PARAGRAPH (1) ABOVE ARE AN ABSOLUTE MUST.

3) Cash Basis as Opposed to Accrual Basis
The Health Service System operates on a cash basis with the Controller responsible for accrual accounting.

Serious consideration should be given to the creation of an accounting section which would allow this system to control its own business.

The inflow and outflow of receipts and disbursements is such that a current and readily available financial position is mandatory. The volume of work passing through this department is unbelievable.

4) Co-Mingled Funds
The amounts held as Certificated Deposits in the Reserves of the Health Service System were built up from both City and County contributions and active and retired employee contributions. The City and County does not subsidize any dependents. It is requested that an attempt be made to determine a definite percentage breakdown for these C.D.'s in the light of allowing the Health Service Board by resolution to expend the employees' portion to improve both benefits and service.

HEALTH SERVICE SYSTEM

COMPARISON OF EXPENDITURES

FISCAL YEARS 1975-1976 AND 1976-1977

	1975-1976	1976-1977
Salaries	273,260.49	281,071.82
Overtime	383.16	333.66
Fees and Other Compensation	150.00	150.00
Contractual Services	13,681.00	18,185.47
Materials and Supplies	3,292.00	3,525.19
Equipment	-0-	910.96
Fixed Charges	171.00	208.00
Retirement Allowances	43,281.68	48,850.91
Social Security Tax	12,909.21	13,465.58
Health Service Allowances	6,363.60	6,514.20
Controller's E.D.P.	186,730.00	173,244.00
Services of Other Departments	1,641.00	838.27
TOTAL	541,863.14	547,348.06

HEALTH SERVICE SYSTEM

STATEMENT OF REVENUE AND EXPENDITURES FOR F.Y. 1976-1977

REVENUES

1976-1977 MONTH	PRIOR YEAR RESERVE	CONTRIBUTIONS	MATCHING	SUBSIDY	REFUND FROM CLAIMS	AVAILABLE
JULY	$ 562,197.69	$ 779,595.97	$ 538,945.40	$ 170,010.59	$ 8,775.86	$ 2,059,525.51
AUGUST		960,722.89	537,963.09	201,891.04	10,065.87	1,710,642.89
SEPTEMBER		822,883.73	556,959.30	178,965.42	4,273.92	1,563,082.37
OCTOBER		1,081,001.08	752,532.84	201,783.94	2,859.94	2,038,177.80
NOVEMBER		836,031.46	550,752.19	209,300.60	5,847.06	1,601,931.31
DECEMBER		833,077.26	568,522.92	205,985.50	12,356.23	1,619,941.91
JANUARY		805,263.61	547,896.37	204,394.49	6,461.46	1,564,015.93
FEBRUARY		847,997.09	583,130.30	203,440.57	4,920.55	1,639,488.51
MARCH	756.02	818,491.53	563,402.68	200,751.81	4,295.64	1,587,697.68
APRIL		1,076,391.22	758,848.75	203,985.82	13,002.47	2,052,208.26
MAY		815,631.24	560,542.96	202,492.84	6,022.76	1,584,689.80
JUNE	250,000.00	807,401.26	564,408.11	195,962.36	4,603.36	1,822,375.09
	$ 812,953.71	$ 10,484,488.34	$ 7,083,904.91	$ 2,378,944.98	$ 83,485.12	$ 20,843,777.06

EXPENDITURES

1976-1977 MONTH	CURRENT YEAR BASIC	MAJOR MEDICAL	CALIF. VISION SERVICE	KAISER	BLUE CROSS	PAYMENTS	BALANCE
JULY	$ 441,914.82	$ 157,090.76	$ 31,198.75	$ 732,479.24	$ 211,985.11	$ 1,574,668.68	$ 484,856.83
AUGUST	381,821.10	171,569.89	31,121.75	836,743.93	260,152.24	1,681,408.91	29,233.98
SEPTEMBER	334,930.34	161,446.13	31,094.25	769,533.86	222,408.76	1,519,413.34	43,639.03
OCTOBER	427,522.20	198,368.96	30,987.00	1,024,376.02	285,369.08	1,966,623.26	71,554.54
NOVEMBER	592,022.83	170,811.14	31,058.50	776,584.82	226,243.54	1,796,720.83	-194,789.52
DECEMBER	429,286.71	173,286.37	31,017.25	785,482.18	222,246.22	1,641,318.73	21,376.82
JANUARY	385,638.63	169,239.51	41,195.00	760,425.08	212,593.25	1,569,091.47	- 5,075.54
FEBRUARY	451,437.49	173,672.78	41,195.00	804,746.96	226,348.55	1,697,400.78	-57,912.27
MARCH	428,113.84	169,320.77	41,285.75	776,154.18	218,905.98	1,633,780.52	-46,082.84
APRIL	541,167.12	202,012.83	41,508.50	1,023,498.85	282,046.47	2,090,233.77	-38,025.51
MAY	380,200.17	169,858.35	41,714.75	774,855.92	213,668.05	1,580,297.24	4,392.56
JUNE	317,461.38	164,384.90	41,580.00	777,054.50	210,055.13	1,510,535.91	311,639.18
	$ 5,111,516.63	$ 2,081,062.39	$ 434,956.50	$ 9,841,935.54	$ 2,792,022.38	$ 20,261,493.44	$ 582,283.62

PHILIP J. KERRNEY
EXECUTIVE DIRECTOR

ANNUAL DEPARTMENTAL REPORT TO THE MAYOR

HEALTH SERVICE SYSTEM

Fiscal Year July 1, 1977 - June 30, 1978

HISTORY:
The Health Service System was established by Charter Amendment in March of 1937 and has been conducting business officially since October 1938. In 1961, the Health Service System became a fully budgeted department of the City of San Francisco and has been operating within its budget since that time.

The System was unique when it was established because it provided for a self-funded (uninsured) medical plan and today it is one of the few county or municipal plans in the United States which handles its medical program on a self-funded basis.

MEDICAL PLANS OFFERED:
Only two plans were offered to the membership at large in this fiscal year: Plan I, the City Administered Plan, and Plan II, Kaiser Foundation Health Plan. Our agreement with Blue Cross of Northern California was terminated as the rate increases requested were prohibitively high, and the membership conditions imposed could not possibly have been met by this group.

The absence of a third plan placed an awesome burden on this department; to the degree that it was most difficult to operate successfully. The increased work load was certainly not in line with the table of organization of this department. Had it not been for dedicated hard-working employees, the results to this department would have been catastrophic.

HEALTH SERVICE BOARD:
The Health Service Board is entrusted with the responsibility of providing the best possible medical coverage at a reasonable cost to all its members. The Board presently is composed of three members elected from the membership at large, two ex-officio members from City government, and two members appointed by the Mayor representing business interest in San Francisco:

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	Mr. Frank Lucibello Public Health
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	Mr. Thomas A. Toomey Representing Mr. Thomas M. O'Connor, City Attorney

Appointed Members: Abraham Bernstein, M.D., President
Practicing Physician

Mr. Robert E. Hassing
Insurance Executive
Joseph A. Wynne Agency

It is felt that the composition of the Health Service Board presents a very well-balanced working unit. There is a close liaison established between the City employees, City governmental officials, and downtown business interests. There is no more experienced or better qualified group of people dictating policy for any department in municipal government than the men working as members of the Health Service Board.

RATES:
The Health Service Board continues to survey currently through a committee structure comparative premium rates throughout the medical field. Periodically, the findings and changes uncovered as a result of the survey are presented to the full Board for consideration, and are implemented in rate changes at the commencement of each fiscal year. It might be added that the Board is primarily responsible for setting the rates for Plan I and for the major medical carrier. For the remaining plans offered, it becomes the Board's responsibility to determine whether or not the contract rates, as presented, are in line with the benefits provided.

CITY'S CONTRIBUTION TO ACTIVE AND RETIRED EMPLOYEES MEDICAL INSURANCE PREMIUMS:
Effective July 1, 1977, the City and County of San Francisco contributed $32.54 per month toward the cost of an active employee's medical insurance coverage. This $32.54 represented an increase of $5.24 over the City's contribution for the previous fiscal year and represented 100% of the average being contributed by the ten (10) most populous counties in the State of California. Dependents are not subsidized; the City's contribution is for the member only.

RETIRED SUBSIDY:
The City also subsidizes retired employees. The Charter requires that Active and Retired employees pay the same amount out of pocket. The Retired Subsidy will then fluctuate as the rates for the entire System fluctuate. As an example, the contract rate for a single active member in Plan I for the fiscal year 1977-1978 was $37.04 per month. The rate for a retired single member was $70.48 per month. When the City contribution, $32.54, was subtracted from the $37.04 rate, the active employee was paying $4.50 per month out of pocket. His retired counterpart could then pay no more than $4.50 out of pocket. Subtracting the $4.50 payment by the active employee from the $70.48 rate for the retired employee, we arrive at a figure, $65.98 (the Retired Subsidy). It is interesting to note that the City contributed $65.98 per month for a retired member and only $32.54 per month for an active employee for this fiscal year.

MEMBERSHIP DIVISION:
The Membership Division of the Health Service System underwent a partial reorganization during the previous fiscal year, and the Division as reorganized is functioning very well. There are presently 25,891 active employees, 8,360 retired employees, and 1,448 resigned employees and residual members. When the dependents of these groups are added, the Membership Division is exercising control over some 72,000. These figures clearly indicate the ever increasing workload in this department.

A very close liaison is established between Data Processing and Payroll Deductions. Down through the years, as the bugs have been ironed out of E.D.P., the working conditions existing between Data Processing and this Membership Division have been streamlined to a great degree. The personnel of this department have been briefed and indoctrinated in the working of the Data Processing Center, and are acquainted with the mutual problems that exist between the two departments.

The membership Division also works closely with the Retirement System staff. A list of new retirees is forwarded to the Health Service System monthly. The rate structure changes and Medicare membership must be considered; plan selection is a factor; and finally, starting off the retiree with new payroll deductions, etc., is implemented. This operation requires a cooperative effort between this Department, the Retirement System and the Controller's E.D.P. Division.

RULES AND REGULATIONS:

The Health Service Board, through its committee structure, over the past years, has completely re-written the rules and regulations for this System. Updated Rules to include current changes were printed in January 1, 1976 and are available to each member. In addition, each member is provided with a Comparison of Plans sheet outlining benefits and rates for the fiscal year. A digest of the important facets of the rules and regulations is also printed on the Comparison of Plans sheet. The two most important items would be the month of May sign-up period and the three conditions for being carried in an Exempt status in the System; (1) adequate outside coverage, (2) religious belief, and (3) annual salary in excess of $14,000.

The Health Service Board realizes that this is a "service system," and in most cases technical decisions regarding the rules and regulations will be resolved in favor of the member.

During fiscal year 1977-1978, a manual was printed and available to all members of Plan I and distributed to the retired members, which served as a guide to the processing of medical claims. This publication has benefited the entire membership but particularly the retired members.

CLAIMS DIVISION:

This division has the responsibility for handling claims submitted for payment to Plan I, the City Administered Health Plan. This plan is divided into two parts;

1) Basic Benefits Claims - about 2,450 are received each week. When this figure is multiplied by 52, we arrive at a figure in excess of 127,000 for the year. The expenditure figure for Basic Benefits claims was $6,941,423.47, very close to a one million dollar increase over the previous fiscal year.

2) Major Medical Claims - these claims are assembled initially and processed in this office and forwarded to the Major Medical carrier for review and payment. Checks in payment of these claims are returned to this office for distribution. Monthly volume is approximately 1,000 claims with an expenditure of $3,555,484.47.

3) Medicare Claims - Approximately 250 Medicare claims are processed weekly. They are forwarded to Phoenix Mutual for further processing and payment. Medicare claims cause anguish to our retired employees. The situation is such that considerable paper work is involved prior to submission, which at best is difficult to accomplish

The Claims Division must also maintain close liaison with the Compensation Claims Division of the Retirement System in order to ensure refund of monies expended on cases later determined to have been industrial in origin. Close surveillance of this aspect is required to protect the financial structure of the System.

Due to the exceptional number of retirements from City Service during the past fiscal year, an administrative burden was placed on the Compensation Claims Division of the Retirement System that it could not possibly handle with the table of organization allowed; as a result payment of Health Service System liens for disability retirees have not been honored on a current basis. This situation affects the financial position of this system.

PUBLIC HEARING:

In accordance with Charter provisions, a public hearing was held on January 19, 1978. Representatives from Kaiser were present, and many questions were directed to them. The President of the Board, Commissioner Abraham Bernstein, M.D., reviewed the System's previous year's operations; and Mr. Juan B. Rael, Jr., of the firm of Rael and Letson, the System's Actuaries, commented on the rates, the coverage, and the gain and loss specifics of the preceding year. Those in attendance were outspoken in their praise for the System generally and several improvements were recommended. The main issue seemed to be maximum coverage with minimum cost.

ACTUARIAL STATUS:

Mr. Juan B. Rael, Jr., our full-time Actuary, presents a detailed report monthly with current figures for all financial trends and transactions of the System. His report, monthly and yearly to date include Plan I basic benefits and major medical. The Kaiser Foundation Health Plan is included generally to indicate revenues and expenditures. Please refer to Exhibit B attached.

It should be noted for the fiscal period that the Health Service System experienced a 100% loss ratio. All revenues received were expended for medical benefits; this incidentally represents the epitome of success in a reserve type system. The reserves for incurred but unpaid claims and any contingency that may arise is adequately covered by the 2.9 million dollars presently held in certificated deposits.

ANALYSIS OF SYSTEM FROM MEDICAL VIEWPOINT:

Again this year we have been able to increase some of the Basic Benefits paid by Plan I, helping to alleviate the continued cost of medical care, while still maintaining our members contributions to practically the same level as 1976-1977.

We have increased office calls to $14.00 a visit, daily hospital room rate to $130.00, and auxiliary costs to $2,600.00 a year. Maternity benefits have been raised to $1,200.00 for hospital and professional charges. This is a flat reimbursement without any excess charges being paid by Phoenix Mutual. Charges for ambulance service to or from a hospital when ordered by a physician are now covered to a maximum of $100.00.

A new plan, Children's Hospital Health Plan, has been accepted. This is a closed-panel pre-paid group based at Children's Hospital and utilizing their plan, and members of their staff. This Plan begins service on July 1, 1978, and no critique of their medical delivery can be rendered until 1979. This Plan was carefully studied and was felt to be sound, both financially and medically.

The Vision Care Plan has been very successful, well utilized, and relations with the organization have been extremely satisfactory.

Effective July 1, 1978, a new prescription drug plan was instituted under the auspices of Phoenix Mutual and serviced by the Pharmaceutical Card System, Inc., a Foremost McKesson Company. Under this plan, any prescription of any cost will be filled by a 'member pharmacy' for $2.00. This appears to be an excellent program.

We have attempted to maintain our schedule of reimbursement of claims payments and feel that, in general, we have been very successful. Shortages of personnel and training of replacements has been a constant stumbling block this year and we hope it will not be such a factor in 1978-1979. We have received invaluable clerical help from Phoenix during the year in alleviating this problem as regards our Major Medical program.

It is redundant to state that our relations with Kaiser and with Phoenix have been excellent and cordial, but I feel I would be amiss in not stressing this fact.

No system of health care delivery can afford to become static. We are constantly studying new ways to improve and broaden our coverage. We have been investigating various concepts of dental care coverage and their implementation. Consideration of broader coverage, such as alcoholism, mental health, and long-term care have been discussed. We already accept new-born as members at birth, which lightens the burden on the younger member parents of Plan I.

In conclusion, our aims are still those expressed in the closing paragraphs of the reports for 1975-1976, and restated again in 1977-1978: "We look with satisfaction, but not smugness, on what has been accomplished during the past year. We hope that such success will continue as the results of our efforts. You may be assured that we will continue to look forward and not be mired in complacency." (Report by J. T. Fitzgerald, M.D., Medical Advisor, Health Service System)

GENERAL ACCOUNTING INFORMATION:

The revenues received from member's contributions, city matching, and retired subsidy during the 1977-1978 fiscal year was $22,277,048. This amount along with prior year reserves carried forward of $582,284 and refunds from medical claims of $148,059 made a total of $23,007,391 available for expenditure.

The expenditures for fiscal year 1977-1978, consisting of payments for medical claims on Plan I, City Administered Plan, and premiums due our medical contractors, Phoenix Mutual Life Insurance Company, California Vision Service, Kaiser Foundation Health Plan and Blue Cross of Northern California totaled $22,226,957. Premiums due Blue Cross were for the previous fiscal year, 1976-1977.

The excess of revenues over expenditures remaining at the end of the fiscal year, $780,433 was available to carry forward to the 1978-79 fiscal year. The Health Service System Comparison of Expenditures, Fiscal Year 1976-77 and 1977-78, identified as Exhibit A, and Statement of Revenue and Expenditures for Fiscal Year 1977-78, Exhibit B, are included as part of this report.

The Health Service System presently holds a contingency reserve account in the amount of $2,900,000 which is invested in certificated deposits. The maturity dates on these deposits are staggered to obtain the highest yield and to insure availability of funds. Interest collected on these deposits during the fiscal year 1977-78 amounted to $151,312.

RECOMMENDATIONS:

1) Absolutely require more space to effectively administer this system. The physical plant is totally inadequate. The shortage of file cabinets has forced this department to use cardboard boxes. While this system is so operating, we are being judged in the light of production as a 20th Century medical insurance carrier.

2) Cash Basis as Opposed to Accrual Basis
The Health Service System operates on a cash basis with the Controller responsible for accrual accounting.

Serious consideration should be given to the creation of an accounting section which would allow this system to control its own business.

The inflow and outflow of receipts and disbursements is such that a current and readily available financial position is mandatory. The volume of work passing through this department is unbelievable.

3) Co-Mingled Funds
The amounts held as Certificated Deposits in the Reserves of the Health Service System were built up from both City and County contributions and active and retired employee contributions. The City and County does not subsidize any dependents. It is requested that an attempt be made to determine a definite percentage breakdown for these C.D.'s in the light of allowing the Health Service Board by resolution to expend the employees' portion to improve both benefits and service.

EXHIBIT A

HEALTH SERVICE SYSTEM

COMPARISON OF EXPENDITURES

FISCAL YEARS 1976-1977 AND 1977-1978

	1976-1977	1977-1978
Salaries	281,071.82	301,373.63
Overtime	333.66	10,771.12
Fees and Other Compensation	150.00	-0-
Contractual Services	18,185.47	18,484.46
Materials and Supplies	3,525.19	3,997.86
Equipment	910.96	-0-
Fixed Charges	208.00	156.00
Retirement Allowances	48,850.91	49,733.25
Social Security Tax	13,465.58	15,153.27
Health Service Allowances	6,514.20	7,104.46
Controller's E.D.P.	173,244.00	153,319.00
Services of Other Departments	888.27	1,756.53
TOTAL	547,348.06	561,849.58

EXHIBIT B

HEALTH SERVICE SYSTEM

STATEMENT OF REVENUE AND EXPENDITURES FOR F.Y. 1977-1978

REVENUES

1977-1978 MONTH	PRIOR YEAR RESERVE	CONTRIBUTIONS	MATCHING	SUBSIDY	REFUND FROM CLAIMS	AVAILABLE
JULY	$ 582,283.62	$ 803,762.68	$ 649,438.36	$ 280,117.69	$ 3,270.35	$ 2,318,872.70
AUGUST		830,990.25	672,086.44	278,413.87	8,156.54	1,789,647.10
SEPTEMBER		1,059,170.27	892,373.44	271,146.26	8,738.38	2,231,428.35
OCTOBER		797,309.36	660,991.86	274,958.81	13,753.26	1,747,013.29
NOVEMBER		801,874.65	675,376.48	265,009.16	13,116.51	1,755,376.80
DECEMBER		856,532.90	682,346.02	320,580.04	7,412.08	1,866,871.04
JANUARY		822,866.18	682,994.58	293,197.62	6,730.59	1,805,788.97
FEBRUARY		837,131.75	681,907.88	302,198.05	6,037.41	1,827,275.09
MARCH		1,101,437.89	939,422.08	293,873.59	37,044.33	2,371,777.89
APRIL		775,769.87	647,457.44	276,895.35	5,392.59	1,705,515.25
MAY		773,591.90	743,989.40	280,291.85	27,150.75	1,825,023.90
JUNE		800,700.94	666,874.78	283,968.13	11,256.29	1,762,800.14
	$ 582,283.62	$ 10,261,138.64	$ 8,595,258.76	$ 3,420,650.42	$ 148,059.08	$ 23,007,390.52

EXPENDITURES

1977-1978 MONTH	CURRENT YEAR BASIC	MAJOR MEDICAL	CALIF. VISION SERVICE	KAISER	BLUE CROSS	PAYMENTS	BALANCE
JULY	$ 267,918.91	$ 280,156.99	$ 60,551.75	$ 843,081.58	$ 9,791.28	$ 1,461,500.51	$ 857,372.19
AUGUST	482,907.23	284,454.60	60,514.25	871,137.14	9,627.38	1,708,640.60	81,006.50
SEPTEMBER	634,502,81	330,533.98	60,522.00	1,125,678.31	3,070.63	2,154,307.73	77,120.62
OCTOBER	477,269.62	279,944.10	60,599.50	847,915.81	519.62	1,666,248.65	80,764.64
NOVEMBER	543,843.74	274,212.14	60,633.00	861,361.99	2,192.93	1,742,243.80	13,133.00
DECEMBER	785,360.34	311,064.60	60,604.25	893,041.10	607.12	2,050,677.41	-183,806.37
JANUARY	526,523.64	293,683.71	60,625.25	879,499.20	452.69	1,760,784.49	45,004.48
FEBRUARY	532,525.80	296,953.77	60,567.75	892,052.47	112.61	1,782,212.40	45,062.69
MARCH	796,235.74	352,864.47	60,570.00	1,177,753.78	29.39	2,387,453.38	-15,675.49
APRIL	503,873.01	275,549.05	60,494.00	855,100.05	-0-	1,675,016.11	30,499.14
MAY	682,676.83	290,288.39	60,472.25	889,143.40	87.96	1,922,668.83	-97,644.93
JUNE	707,785.80	285,778.75	60,373.00	861,265.84	-0-	1,915,203.39	-152,403.25
	$ 6,941,423.47	$ 3,555,484.55	$ 726,527.00	$10,977,030.67	$ 26,491.61	$ 22,226,957.30	$ 780,433.22

PHILIP J. KEARNEY
EXECUTIVE DIRECTOR

ANNUAL DEPARTMENTAL REPORT TO THE MAYOR

HEALTH SERVICE SYSTEM

Fiscal Year July 1, 1978 - June 30, 1979

HISTORY:
The Health Service System was established by Charter Amendment in March of 1937 and has been conducting business officially since October 1938. In 1961, the Health Service System became a fully budgeted department of the City of San Francisco and has been operating within its budget since that time.

The System was unique when it was established because it provided for a self-funded (uninsured) medical plan and today it is one of the few county or municipal plans in the United States which handles its medical program on a self-funded basis.

MEDICAL PLANS OFFERED:
Three plans were offered to the membership at large this fiscal year: Plan I, the City Administered Plan; Plan II, Kaiser Foundation Health Plan; Plan III, Children's Hospital Health Plan.

Plan III was introduced to allow more freedom of choice for active and retired employees and additionally to relieve some of the gigantic administrative burden placed on Plan I as a result of terminating Blue Cross effective July 1, 1977. Plan III has operated successfully and is building up its membership constantly.

HEALTH SERVICE BOARD:
The Health Service Board is entrusted with the responsibility of providing the best possible medical coverage at a reasonable cost to all its members. The Board presently is composed of three members elected from the membership at large, two-ex-officio members from City government, and two members appointed by the Mayor representing business interest in San Francisco:

Employee Members:	Mr. F. Walter Johnson Retirement System	
	Mr. Frank Lucibello Public Health	Joseph A. Gaggero Recreation and Park Effective May 15, 1979
	Mr. Harry Paretchan San Francisco Fire Department	
Ex-Officio Members:	Hon. Quentin L. Kopp Hon. Carol Ruth Silver - effective January 8, 1979 Chairman Finance Committee San Francisco Board of Supervisors	
	Mr. Thomas A. Toomey Representing Mr. Thomas M. O'Connor, City Attorney	
Appointed Members:	Abraham Bernstein, M.D., President Practicing Physician	
	Mr. Robert E. Hassing Insurance Executive, Buckbee-Thorne	

It is felt that the composition of the Health Service Board presents a very well-balanced working unit. There is a close liaison established between the City employees, City governmental officials, and downtown business interests. There is no more experienced or better qualified group of people dictating policy for any department in municipal government than the men working as members of the Health Service Board.

RATES:
The Health Service Board continues to survey currently through a committee structure comparative premium rates throughout the medical field. Periodically, the findings and changes uncovered as a result of the survey are presented to the full Board for consideration, and are implemented in rate changes at the commencement of each fiscal year. It might be added that the Board is primarily responsible for setting the rates for Plan I and for the major medical carrier. For the remaining plans offered, it becomes the Board's responsibility to determine whether or not the contract rates, as presented, are in line with the benefits provided.

CITY'S CONTRIBUTION TO ACTIVE AND RETIRED EMPLOYEES MEDICAL INSURANCE PREMIUMS:
Effective July 1, 1978, the City and County of San Francisco contributed $36.99 per month toward the cost of an active employee's medical insurance coverage. This $36.99 represented an increase of $4.45 above the City's contribution for the previous fiscal year and represented 100% of the average being contributed by the ten (10) most populous counties in the State of California for the same fiscal period. It should be noted that dependents are not subsidized, the City and County of San Francisco contribution is for the member only; this in light of the fact that eight (8) of the ten (10) most populous counties in the State are subsidizing dependents.

RETIRED SUBSIDY:
The City also subsidizes retired employees. The charter requires that active and retired employees not in medicare pay the same amount out of pocket each month. The Retired Subsidy will then fluctuate as the rates for the entire system fluctuate. As an example, the contract rate for a single active member in Plan I for the fiscal year 1978-1979 was $41.29 per month. The rate for a retired single member (not in medicare) was $78.02 per month. When the City contribution $36.99 was subtracted from the $41.29 rate, the active employee was paying $4.30 per month out of pocket. His retired counterpart could then pay no more than $4.30 per month out of pocket. Subtracting the $4.30 payment by the active employee from the $78.02 rate for retired employees, we arrive at a figure, $73.72 (The Retired Subsidy). It is interesting to note that the City contributes $73.72 per month for a retired member and only $36.99 per month for an active member.

MEMBERSHIP DIVISION:
The Membership Division of the System is functioning very well in light of increased work volume and decreased staff. There are presently 22,333 active employees, 9,115 retired employees and 1,527 resigned and residual members. When the dependents of these groups are added, this division exercises control over some 70,000. These figures clearly indicate the ever increasing workload for this division.

A very close liaison is established between Data Processing and Payroll Deductions. Down through the years, as the bugs have been ironed out of E.D.P., the working conditions existing between Data Processing and this Membership Division have been streamlined to a great degree. The personnel of this department have been briefed and indoctrinated in the working of the Data Processing Center, and are acquainted with the mutual problems that exist between the two departments.

The membership Division also works closely with the Retirement System staff. A list of new retirees is forwarded to the Health Service System monthly. The rate structure changes and Medicare membership must be considered; plan selection is a factor; and finally, starting off the retiree with new payroll deductions, etc., is implemented. This operation requires a cooperative effort between this Department, the Retirement System and the Controller's E.D.P. Division.

RULES AND REGULATIONS:
The Health Service Board, through its committee structure, over the past years, has completely re-written the rules and regulations for this System. Updated Rules to include current changes were printed in January 1, 1976 and are available to each member. In addition, each member is provided with a Comparison of Plans sheet outlining benefits and rates for each fiscal year. A digest of the important facets of the rules and regulations is also printed on the Comparison of Plans sheet. The two most important items would be the month of May sign-up period and the three conditions for being carried in an Exempt status in the System: (1) adequate outside coverage, (2) religious belief, and (3) annual salary in excess of $14,000.

The Health Service Board realizes that this is a "service system," and in most cases technical decisions regarding the rules and regulations will be resolved in favor of the member.

CLAIMS DIVISION:
This division has the responsibility for handling claims submitted for payment to Plan I, the City Administered Health Plan. The System assumes the entire risk in the Basic Benefit area.

1) BASIC BENEFIT CLAIMS. Approximately 2,400 are received each week; on a yearly basis, the total number received exceeds 124,000. The expenditure figure for Basic Benefits claims was $7,223,250.43, a considerable increase from the previous fiscal year.

2) MAJOR MEDICAL CLAIMS. The risk in this area is laid off to Phoenix Mutual Life Insurance Company; however, effective July 1, 1979, the System will assume this risk also. Monthly volume is approximately 1,000 claims with an expenditure of $4,431,917.38, annually.

3) Medicare Claims. Approximately 250 Medicare claims are processed weekly. They are forwarded to Phoenix Mutual for further processing and payment. Medicare claims cause anguish to our retired employees. The situation is such that considerable paper work is involved prior to submission, which at best is difficult to accomplish.

The Claims Division must also maintain close liaison with the Compensation Claims Division of the Retirement System in order to ensure refund of monies expended on cases later determined to have been industrial in origin. Close surveillance of this aspect is required to protect the financial structure of the System.

Due to the exceptional number of retirements from City Service during the past fiscal year, an administrative burden was placed on the Compensation Claims Division of the Retirement System that it could not possibly handle with the table of organization allowed; as a result payment of Health Service System liens for disability of retirees have not been honored on a current basis. This situation affects the financial position of this system.

PUBLIC HEARING:
In accordance with Charter provisions, a public hearing was held on January 18, 1979. Representatives from Kaiser Foundation Health Plan, Children's Hospital Health Plan and the California Vision Service Plan were present; many questions were directed to them. The President of the Board, Commissioner F. Walter Johnson, reviewed the System's previous year's operations; Mr. Juan B. Rael, Jr., of the firm of Rael and Letson, the System's Actuaries, commented on the rates, the coverage, and the gain and loss specifics of the preceding year. Those in attendance were outspoken in their praise for the System generally and several improvements were recommended. The main issue seemed to be maximum coverage with minimum cost.

ACTUARIAL STATUS:
Refer to Exhibit A, attached.

ANALYSIS OF SYSTEM FROM MEDICAL VIEWPOINT:
The year 1978-1979 was one of considerable changes and excitement for Plan I of the Health Service System.

We had accepted a new health service, that of Children's Hospital of San Francisco, as an additional prepaid plan as of July 1, 1978 and had watched its growth and service over the year. Their service has been well accepted, and as of this date seems to have been an excellent choice. As of the beginning of the fiscal year 1979-1980 they are providing services to 1,800 employees and their dependents. This plan allows City employees a second pre-paid health plan and provides health competition for the Kaiser Plan.

A decision was made to offer a voluntary dental plan for active and retired employees. Safeguard Health Plans, Inc. was selected from a long list of providers to undertake such a program. It became operational on July 1, 1979 and the success of this program will not be determined until a later date.

We continue to have excellent support with the California Vision Service Plan. Their service to our group has been outstanding.

There have been changes in our prescription drug plan. Pharmaceutical Card System, Inc. (PCS) administered the prescription drug plan for Phoenix Mutual. After a slow start due to distribution of cards, the system functioned very well. A two dollar deductible feature was included and utilization actually was comparatively low.

During the year two changes in operation of the Health Service System occured. The first, and probably the most important, was the ruling of the Equal Employment Opportunity Commission regarding maternity benefits. Maternity must be considered on the same basis as an illness, and all medical, surgical, and hospital charges must be on that basis. The increased cost to the health service cannot be estimated at this time. The second problem that has arisen has been the withdrawal of the Relative Value Schedule by the California Medical Association. The CMA consented to withdraw this manual rather than go to court with the FTC. This manual, repeatedly updated, has been invaluable as a guideline to the value of procedures to a normal, not in dollars but rather in comparison.

We are in the throes of the activation of our computerized claims system. We feel that it will be precise and rapid in payment, clarifying for our members the benefits which have been allowed.

The Health Service is a viable health delivery system, responsive to the needs of its members. In spite of increased medical costs, we have been able to maintain a financially sound structure, with reserves sufficient to care for any foreseeable contingencies.

In conclusion, we feel we are a progressive system providing a prescription drug plan, vision care plan, and negotiating for a voluntary dental plan. We are constantly looking for new avenues to improve our services; from computerized operations to expedite reimbursements and provide timely information; to new services including the treatment of alcoholism and the care of extended or chronic illness.

We are looking forward with enthusiasm to 1979-1980.

GENERAL ACCOUNTING INFORMATION:

It should be recognized that the Health Service System is operating on a CASH BASIS with the accrual accounting responsibility resting with the Controller of the City and County of San Francisco. The fact that the City subsidizes only the member and dependents must be paid for by the member, any reserves generated fall into the category of 'Co-Mingled Funds'. It has to date never been established what percentage of this reserve is City and what percentage, employee. These percentages should without question be established.

The revenue received from members' contributions, City subsidy for both active and retired for the fiscal year was $23,146,237.59. This amount along with prior year reserves of $780,433.22 and refunds from medical claims of $252,608.80 came to a total of $24,179,277.61 available for expenditure.

The expenditures for the period consisting of payments for medical claims on Plan I, City Administered Plan, and premiums due our medical contractors, Phoenix Mutual Life Insurance Company, California Vision Service, Kaiser Foundation Health Plan and Children's Hospital of San Francisco totaled $23,897,771.89.

The excess of revenues over expenditures at the close of the fiscal year in the amount of $281,505.72 was available to carry forward to the new fiscal period. The Health Service System Comparison of Expenditures, Fiscal Year 1977-1978 and 1978-1979, identified as Exhibit B and Statement of Revenue and Expenditure for Fiscal Year 1978-1979, Exhibit C, are included as part of this report.

The Health Service System presently holds a Contingency Reserve Account in the amount of $2,900,000, which is invested in Certificated Deposits. The maturity dates on these deposits are staggered to insure availability of funds and obtain the highest yield. Interest collected on these deposits for fiscal year 1978-1979 amounted to $250,231.94.

RECOMMENDATIONS:

1) Absolutely require more space to effectively administer this system. The physical plant is totally inadequate. The shortage of file cabinets has forced this department to use cardboard boxes. While this system is so operating, we are being judged in the light of production as a 20th Century medical insurance carrier.

2) That the percentage of Co-Mingled Funds mentioned under the heading, General Accounting Information, be established to enable the Health Service Board by resolution to control operations more clearly and to expend monies held in reserve for the continued successful operation of this System, in light of budgetary cuts.

3) Cash Basis as Opposed to Accrual Basis

The Health Service System operates on a cash basis with the Controller responsible for accrual accounting.

Serious consideration should be given to the creation of an accounting section which would allow this system to control its own business.

The inflow and outflow of receipts and disbursements is such that a current and readily available financial position is mandatory. The volume of work passing through this department is unbelievable.

EXHIBIT A

RAEL & LETSON
Consulting Actuaries
1200 Bayhill Drive
San Bruno, California 94066

Telephone
(415) 871-7701

San Francisco
Exchange
(415) 761-1201

Juan B. Rael, Jr. F.S.A.
Edward W. Letson, M.A.A.A.

Michael R. Clark, A.S.A.
Linda J. Chapman, A.A.A.A.
Karen A. Clark, A.A.A.A.

August 22, 1979

Health Service Board
City and County of San Francisco
450 McAllister Street
San Francisco, CA 94102

Attention: Philip J. Kearney

Gentlemen:

As the full-time Actuary of the Health Service System, one of our principal duties is to present a detailed report monthly with current figures for all financial trends and transactions of the System. Our report, monthly and year-to-date includes Plan I basic benefits and major medical. The Kaiser Foundation Health Plan and the Childrens' Hospital Plan is included generally to indicate revenues and expenditures.

We are responsible for establishing the rates for the Self-funded Plan I benefits. These rates are established on the February preceding the fiscal year. We will also be responsible for establishing the major medical rates after it is self-funded on July 1, 1979.

The rate of claims to contributions was 108% for the fiscal year. Most of the claims excess was financed by interest from the certificated deposits. The rates for the next fiscal year have been adjusted to restore the balance of contribution to claims.

The System is currently holding $2,900,000 in certificated deposits. This amount should exceed the reserve requirement for "incurred but unpaid" claims. Interest earned on these deposits is used to offset the contribution requirements of the Health Service System. Due to the major medical being self-funded, it is anticipated that the certificated deposits will increase by close to $600,000 during the next fiscal year.

Very truly yours,

Juan B. Rael

Juan B. Rael, Jr.

JBR/bw

HEALTH SERVICE SYSTEM

COMPARISON OF EXPENDITURES

FISCAL YEARS 1977-1978 AND 1978-1979

	1977-1978	1978-1979
Salaries	301,274	347,458
Overtime	10,771	820
Contractual Services	18,484	18,399
Materials and Supplies	3,998	2,857
Equipment	-0-	712
Fixed Charges	156	208
Retirement Allowances	49,733	64,271
Social Security Tax	15,153	17,007
Health Service Allowances	7,105	16,295
Unemployment Insurance	-0-	1,439
Services of Other Departments	1,757	
Controller's E.D.P.	153,319	210,669
Purchaser's Reproduction		1,649
Registrar of Voters		991
Workmen's Compensation		381
	561,850	683,156

EXHIBIT C

HEALTH SERVICE SYSTEM

STATEMENT OF REVENUE AND EXPENDITURES FOR F.Y. 1978-1979

REVENUES

1978-1979 MONTH	PRIOR YEAR RESERVE	CONTRIBUTIONS	MATCHING	SUBSIDY	REFUND FROM CLAIMS	AVAILABLE
JULY	$ 780,433.22	$ 742,513.27	$ 721,717.09	$ 320,561.28	$ 15,140.95	$ 2,579,365.81
AUGUST		981,448.35	1,002,059.07	315,144.97	11,884.14	2,310,536.53
SEPTEMBER		756,194.34	728,063.48	327,699.23	16,524.10	1,828,481.15
OCTOBER		758,721.53	712,761.97	341,891.04	35,580.35	1,848,954.89
NOVEMBER		784,338.47	742,422.44	350,780.91	20,118.03	1,897,659.85
DECEMBER		790,321.61	784,286.80	328,189.86	21,648.57	1,924,446.84
1ST SIX MONTHS	$ 780,433.22	$ 4,813,537.57	$ 4,690,310.85	$1,984,267.29	$ 120,896.14	$ 12,389,445.07
JANUARY		969,421.65	994,731.53	333,381.73	28,211.69	2,325,745.60
FEBRUARY		794,455.52	739,077.69	400,102.09	18,813.70	1,952,449.00
MARCH		784,425.81	768,137.93	332,591.79	23,074.19	1,908,229.72
APRIL		773,933.78	750,137.25	357,542.79	19,740.27	1,901,354.09
MAY		736,963.87	707,082.03	348,615.06	26,540.14	1,819,201.10
JUNE		769,212.08	749,108.48	349,200.80	15,330.67	1,882,852.03
TOTAL	$ 780,433.22	$ 9,641,950.28	$ 9,398,585.76	$4,105,701.55	$ 252,606.80	$ 24,179,277.61

EXPENDITURES

1978-1979 MONTH	CURRENT YEAR BASIC	MAJOR MEDICAL	CALIF. VISION SERVICE	KAISER	CHILDREN'S HOSPITAL	PAYMENTS	BALANCE
JULY	$ 381,981.90	$ 349,118.12	$ 48,815.76	$ 837,506.84	$ 50,417.52	$ 1,667,840.14	$ 911,525.67
AUGUST	859,216.60	407,986.54	48,489.42	1,119,918.94	83,608.84	2,519,222.34	-208,685.81
SEPTEMBER	590,909.15	351,171.33	48,315.96	847,893.58	59,337.52	1,897,627.54	- 69,146.39
OCTOBER	501,264.18	355,442.48	48,245.40	841,561.64	59,193.41	1,805,707.11	43,247.78
NOVEMBER	606,285.85	365,584.44	48,336.54	865,840.93	66,843.42	1,953,291.18	- 55,631.33
DECEMBER	595,508.34	357,449.26	48,321.84	893,418.16	70,728.98	1,965,426.58	- 40,979.74
1ST SIX MONTHS	$ 3,535,168.02	$ 2,137,152.17	$ 290,524.92	$ 5,406,140.09	$ 390,129.69	$ 11,809,114.89	$ 580,330.18
JANUARY	599,133.45	412,038.69	48,227.76	1,105,793.03	90,452.45	2,255,645.38	70,101.22
FEBRUARY	553,222.18	389,741.38	48,066.06	874,780.88	67,120.97	1,932,931.47	19,517.53
MARCH	653,404.52	360,679.06	48,071.94	883,556.74	70,556.08	2,016,268.34	-108,038.62
APRIL	677,314.16	363,384.10	47,951.48	870,882.22	69,418.84	2,032,950.72	-131,596.63
MAY	528,097.16	352,475.51	47,857.32	831,097.42	64,445.07	1,823,972.48	- 4,771.38
JUNE	676,910.94	362,446.47	47,801.46	869,652.31	70,077.43	2,026,888.66	-144,036.58
TOTAL	$ 7,223,250.43	$ 4,431,917.38	$ 578,500.86	$10,841,902.69	$ 822,200.53	$ 23,897,771.89	$ 281,505.72

PHILIP J. KEARNEY
EXECUTIVE DIRECTOR

ANNUAL DEPARTMENTAL REPORT TO THE MAYOR

HEALTH SERVICE SYSTEM

Fiscal Year July 1, 1979 - June 30, 1980

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The System was unique when it was established because it provided for a self-funded medical plan and today it is one of the few county or municipal plans in the United States which handles its medical program on a self-funded basis.

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The Health Service Board is entrusted with the responsibility of providing the best possible medical coverage at a reasonable cost to all its members. The Board presently is composed of three members elected from the membership at large, two ex-officio members from City government, and two members appointed by the Mayor who represent expertise from the insurance and medical fields.

Employee Members:	Mr. Joseph A. Gaggero Recreation Park
	Mr. F. Walter Johnson Retirement System
	Mr. Harry Paretchan, President San Francisco Fire Department
Ex-Officio Members:	Honorable Louise H. Renne Chairman Finance Committee San Francisco Board of Supervisors
	Mr. Thomas A. Toomey Representing Mr. George Agnost City Attorney
Appointed Members:	Abraham Bernstein, M.D. Practicing Physician
	Mr. Robert E. Hassing Insurance Executive, Buckbee-Thorne

t is felt that the composition of the Health Service Board presents a very well-balanced working unit. There is a close liaison established between the City employees, City governmental officials, and downtown business interests. There is no more experienced or better qualified group of people dictating policy for any department in municipal government than the individuals working as members of the Health Service Board.

RATES:

The Health Service Board continues to survey currently through a committee structure comparative premium rates throughout the medical field. The findings and changes uncovered as a result of the survey along with the actuarial cost of providing benefits to each status class are presented to the full Board for consideration, and are implemented in rate changes at the commencement of each fiscal year. The Board is primarily responsible for setting the rates for Plan I. For the remaining plans offered, it becomes the Board's responsibility to determine whether or not the contract rates, as presented, are in line with the benefits provided.

RULES AND REGULATIONS:

The Health Service Board, through its committee structure, over the past years, has completely rewritten the rules and regulations for this System. Updated Rules to include current changes were printed on January 1, 1976 and are available to each member. In addition, each member is provided with a Comparison of Plans sheet outlining plan benefits and rates for each fiscal year. A digest of the important facets of the rules and regulations is also printed on the Comparison of Plans sheet. Individual plan booklets are also available in the System's office.

The Health Service Board realizes that this is a "service oriented system," and in most cases technical decisions regarding the rules and regulations will be resolved in favor of the member.

CITY'S CONTRIBUTION TO ACTIVE AND RETIRED EMPLOYEES MEDICAL INSURANCE PREMIUMS:

Effective July 1, 1979, the City and County of San Francisco contributed $40.08 per month toward the cost of an active employee's medical insurance coverage. This $40.08 represented an increase of $3.09 above the City's contribution for the previous fiscal year and represented 100% of the average being contributed by the ten (10) most populous counties in the State of California as determined by survey conducted in the preceding fiscal year. It should be noted that dependents are not subsidized; the City and County of San Francisco contribution is for the member only; this in light of the fact that eight (8) of the ten (10) most populous counties in the State are subsidizing dependents.

RETIRED SUBSIDY:

The City also subsidizes retired employees. The charter requires that retired employees not pay more out of pocket each month than an active employee. The Retired Subsidy will then fluctuate as the rates for the entire system fluctuate. As an example, the contract rate for a single active member in Plan I for the fiscal year 1979-1980 was $45.63 per month. The rate for a retired single member (not in medicare) was $85.09 per month. When the City contribution $40.08 is subtracted from the $45.63 rate, the active employee was paying $5.55 per month out of pocket. His retired counterpart could then pay no more

than $5.55 per month out of pocket. Subtracting the $5.55 payment by the active employee from the $85.09 rate for retired employees, we arrive at the Retired subsidy of $79.54. It is interesting to note that the City contributes $79.54 per month for a retired member without medicare and only $40.08 per month for an active member. The subsidy for this fiscal year ranged from $22.00 to $79.54 per month per retired member.

MEMBERSHIP DIVISION

The Membership Division accounts for approximately $30 million per year in revenues which are received, reconciled and disbursed to the appropriate medical plan.

This Division of the System is functioning very well in light of increased work volume. As of June 30, 1980 there were 22,243 active employees, 9,408 retired employees and 1,574 resigned and surviving spouse members. When the dependents of these members are added, this division exercises membership control over some 67,760 individuals.

A very close liaison is established between Data Processing and the Health Service System. The personnel of this department have been briefed and indoctrinated in the working of the Data Processing Division and its programs, and are acquainted with the mutual problems that exist and must be addressed to provide a smooth work process between the two departments.

The EDP programs of the Membership Division are becoming antiquated relative to the amount of work which must be done manually. Some of the additional manual workload has been caused by the City's FAMIS accounting system and the MSA payroll system of the Recreation and Park Department. A feasibility study to upgrade the Membership Division's data processing capabilities is scheduled to commence during the 1980-81 fiscal year.

The Membership Division works closely with the Retirement System staff. A list of new retirees is forwarded to the Health Service System monthly for processing of rate structure changes, Medicare membership and transfer to the Retirement rolls for health service deduction. This operation requires a cooperative effort between this department, the Retirement System and the Controller's EDP Division.

CLAIMS DIVISION:

This division has responsibility for handling claims submitted for payment to Plan I, the City Administered Health Plan. The System assumed the entire risk for both the Basic and Major Medical portions of this indemnified health plan on July 1, 1979.

The medical claims processing was converted from a manual to an automated processing system which computes benefits for both basic and major medical in one cycle. This system has also expedited the processing of claims and rendered a disposition statement to the member on every claim submitted.

The automation allowed us to terminate our contract with Phoenix Mutual Life Insurance Company effective July 1, 1979, saving the administrative costs charged by that company and eliminating the need of two entities handling the same claims for separate benefits.

An average of 2,215 claims per week were received in the 1979-80 fiscal year; approximately 115,000 per year.

The Basic Benefits expenditures for 1979-80 were $7,167,780 and the Major Medical expenditures were $3,810,525. In addition, Phoenix Mutual paid $1,198,945 in major medical claims during this fiscal year for claims which were incurred prior to July 1, 1979.

The Claims Division also maintains close liaison with the Compensation Claims Division of the Retirement System in order to ensure refund of monies expended on cases later determined to have been industrial in origin. Close surveillance of this aspect is required to protect the financial structure of the System.

PUBLIC HEARING:

In accordance with Charter Section 8.423 of the City and County of San Francisco, the Annual Public Hearing Meeting was held on January 18, 1980. Representatives from all medical contractors were present. The President of the Board, Commissioner Harry Paretchan, reviewed the System's previous year's operations; Mr. Juan B. Rael, Jr., of the firm of Rael and Letson, the System's Actuaries, commented on the rates, the coverage, and the gain and loss specifics of the preceding year.

ACTUARIAL STATUS:

Refer to Exhibit A, attached.

ANALYSIS OF SYSTEM FROM MEDICAL VIEWPOINT:

As was the year 1978-1979, this period of 1979-1980, has likewise been one of change and development for the Health Service System of San Francisco, particularly Plan I.

The voluntary dental plan provided by Safeguard Health Plans, Inc., and offered as a voluntary dental plan for active and retired employees, has remained operational, and appears to be progressing satisfactorily. We have had no major complaints regarding the service offered, and the enrollees seem to be well satisfied with this plan.

The California Vision Service Plan continues to offer and provide their excellent service, and is a most acceptable benefit for the members of Plan I of the Health Service.

During the year under consideration, there has been a change provided for our prescription drug plan. During the first part of the year, it had been under the aegis of Safeguard, but early in the second half of the year, by mutual agreement, it was decided that a new carrier would be of mutual benefit. The Health Service accepted the coverage provided by CGM Enterprises Inc., this being a locally owned and operated organization. The method and coverage was continued at the same level as previously.

The Health Service System adopted the applicable provisions of the Pregnancy Discrimination Law and the guidelines of the Equal Employment Opportunity Commission regarding maternity benefits. We agreed with the thesis that maternity must be considered on the same basis as any illness, and that all medical, surgical and hospital charges should be reimbursed on that basis. Our rules of coverage and our methods of claim reimbursement have been adjusted to conform with these new requirements and regulations. As of this point in time, it has not been felt that these added costs have been a burden to the Health Service System, and their implementation has become a part of our operating procedure.

The processing of claims is now completely computerized. After the usual period of time of frustration, and clumsiness, the system has become most satisfactory, and we are able to process both our basic coverage and major medical coverages at the same time. The statement to the members now is complete and quite explanatory. This has been a terrific advancement in clarifying our explanations and itemization of services rendered.

The main problem which the Health Service is undergoing at this time is the clarification and coordination of benefits between those that are offered, or have been offered, under basic coverage, and those which have been covered under major medical. Prior to our accepting responsibility for our major medical, there was little or no agreement as to definitions and scopes of coverage. In the period since we have taken over from the Phoenix Mutual Insurance Company, we have attempted to readjust our definitions and scopes of coverage, so that the intent of our benefits has been more clearly delineated, and certain areas which were covered without our awareness, have been reexamined and readjusted. In a few instances, this has caused a misunderstanding, but we have provided coverage up to the extent which had been established for Plan I.

We expect that as time goes on, the areas of coverage of our basic plan and our major medical coverage will coincide, and that a single set of rules will suffice and prevent misunderstandings.

The Health Service System has been alert to the needs of its members, and has attempted to continue to satisfy their requirements, and to extend to them further benefits as they become available and become financially feasible. There are certain areas of extended coverage, such as alcohol rehabilitation, chronic illnesses, home care, and convalescent care that we hope that it will be possible to extend coverage in the future.

We feel, without a doubt, that a good dental plan is now essential and that studies should be continued to see if such a plan could be implemented and offered in the near future.

During this fiscal year, the Kaiser Foundation Health Plan and Children's Hospital Health Plan extended their coverage in the areas of alcoholism and drug addiction and abuse in order to comply with federal HMO provisions.

GENERAL ACCOUNTING INFORMATION:

It should be recognized that the Health Service System is operating on a CASH BASIS with the accrual accounting responsibility resting with the Controller of the City and County of San Francisco. The fact that the City subsidizes only the member and dependents must be paid for by the member, any reserves generated fall into the category of 'Co-Mingled Funds'. It has to date never been establshed what percentage of this reserve is City and what percentage, employee. These percentages should without question be established.

The revenue received from members' contributions, City subsidy for both active and retired for the fiscal year was $26,245,125. This amount along with prior year operational reserves of $281,506 and refunds from medical claims of $189,061 came to a total of $26,715,692 available for expenditure.

The expenditures for the period consisted of payments for medical claims on Plan I, City Administered Plan, and premiums due our medical contractors, Safeguard Health Plan, Inc., California Vision Service, Kaiser Foundation Health Plan and Children's Hospital Health Plan totaled $25,624,977.

The excess of revenues over expenditures at the close of the fiscal year in the amount of $1,090,715 was available to carry forward to the new fiscal year. The Health Service System Comparison of Administrative Expenditures, Fiscal Year 1978-1979 and 1979-1980, identified as Exhibit B and Statement of Revenue and Expenditure for Fiscal Year 1979-1980, Exhibit C, are included as part of this report.

The Health Service System held a Contingency Reserve of $4,500,000 during the Fiscal Year 1979-1980, which reserve was invested in Certificated Deposits through the City Treasurer. The maturity dates on these deposits are staggered to insure availability of funds and to obtain the highest yield. Interest collected on these deposits for fiscal year 1979-1980 amounted to $428,038.58.

RECOMMENDATIONS:

1) More space is required to effectively administer this system. The physical plant is totally inadequate. Repeated requests in the last four years to have the Department of Public Works, Bureau of Accounts moved from the 5th Floor of 450 McAllister Street have been unsuccessful.

2) That the percentage of Co-Mingled Funds mentioned under the heading, General Accounting Information, be established to enable the Health Service Board by resolution to control operations more clearly and to expend monies held in reserve for the continued successful operation of this System, in light of budgetary cuts.

3) The Health Service System operates on a cash basis with the Controller responsible for accrual accounting. The inflow and outflow of receipts and disbursements is such that a current and readily available financial position is mandatory.

   Serious consideration should be given to the creation of an accounting section which would allow this system to control its own business.

EXHIBIT A

RAEL & LETSON

Consulting Actuaries

1200 Bayhill Drive
San Bruno, California 94066

Telephone
(415) 871-7701

San Francisco
Exchange
(415) 761-1201

uan B. Rael, Jr. F.S.A.
dward W. Letson, M.A.A.A.

lichael R. Clark, A.S.A.
ancy C. Shostak, A.S.A.
arry Smith, M.A.A.A.

October 29, 1980

Health Service Board
City and County of San Francisco
450 McAllister Street
San Francisco, California 94102

Attention: Mr. Philip J. Kearney

Dear Members of the Board:

As the Actuary of the Health Service System, one of our principal duties is to present a detailed report monthly with current figures for all financial trends and transactions of the System. Our report, monthly and year-to-date includes Plan I basic and major medical benefits. The Kaiser Foundation Health Plan and the Childrens' Hospital Plan are included generally to indicate revenues and expenditures.

We are responsible for establishing the rates for the self-funded Plan I basic and major medical benefits. These rates are established on the February preceding the fiscal year.

The ratio of claims to contributions was 100% for the prior fiscal year. Most of the claims excess was financed by interest from the certificated deposits. The rates for the next fiscal year have been adjusted to restore the balance of contribution to claims.

The System is currently holding approximately $4,500,000 in certificated deposits. This amount should exceed the reserve requirement for "incurred but unpaid" claims on the Plan I basic and major medical benefits. Interest earned on these deposits is used to offset the contribution requirements of the Health Service System.

Very truly yours,

Juan B. Rael Jr.

Juan B. Rael, Jr.

JBR/lr

HEALTH SERVICE SYSTEM

COMPARISON OF EXPENDITURES

FISCAL YEARS 1978-1979 AND 1979-1980

	1978-1979	1979-1980
Salaries	323,113	388,789
Temporary Salaries		8,733
Retroactive Salaries		30,186
Overtime	1,952	5,193
Contractual Services	18,400	4,649
Materials and Supplies	2,858	2,219
Equipment	713	-0-
Fixed Charges	78	256
Retirement Allowances	64,272	80,632
Social Security Tax	17,007	21,142
Health Service Allowances	15,947	19,962
Unemployment Insurance	1,439	1,643
Services of Other Departments	-0-	-0-
Controller's E.D.P.	210,669	277,201
Purchaser's Reproduction	1,650	2,340
Registrar of Voters	991	-0-
Workmen's Compensation	381	450
	659,470	843,395

EXHIBIT C

HEALTH SERVICE SYSTEM

STATEMENT OF REVENUE AND EXPENDITURES FOR F.Y. 1979-1980

REVENUES

1979-1980 MONTH	PRIOR YEAR RESERVE	CONTRIBUTIONS	MATCHING	SUBSIDY	REFUND FROM CLAIMS	AVAILABLE
JULY	$281,505.72	$ 1,130,100.26	$1,006,662.14	$ 370,631.33	$ 18,400.41	$ 2,807,299.86
AUGUST		846,818.77	719,459.18	372,659.10	22,641.98	1,961,579.03
SEPTEMBER		882,239.07	743,570.52	385,161.23	5,174.82	2,016,145.64
OCTOBER		938,931.87	828,844.05	407,738.83	14,970.48	2,190,485.23
NOVEMBER		865,909.30	750,263.43	377,783.39	10,749.87	2,004,705.99
DECEMBER		905,972.54	778,330.53	401,816.78	8,470.07	2,094,589.92
JANUARY		1,140,391.67	1,068,425.65	392,329.32	38,574.14	2,639,720.78
FEBRUARY		860,029.80	739,326.45	378,396.74	2,285.83	1,980,038.82
MARCH		931,262.25	870,339.26	403,339.06	20,903.20	2,225,843.77
APRIL		898,127.18	803,902.80	391,768.94	14,125.64	2,107,924.56
MAY		883,529.65	792,612.14	382,403.16	21,210.32	2,079,755.27
JUNE		1,129,758.56	1,074,991.86	391,297.74	11,554.47	2,607,602.63
TOTALS	$281,505.72	$11,413,070.92	$10,176,728.01	$4,655,325.62	$189,061.23	$26,715,691.50

EXPENDITURES

1979-1980 MONTH	CURRENT YEAR BASIC	MAJOR MEDICAL	SAFEGUARD HEALTH PLAN INC.	CALIF. VISION SERVICE	KAISER	CHILDREN'S HOSPITAL	PAYMENTS	BALANCE
JULY	$ 627,240.57	$ 5,599.68	$ 81,195.37	$ 47,216.40	$ 1,137,434.90	$ 116,746.42	$ 2,015,433.34	$ 791,866.52
AUGUST	674,418.83	58,698.96	65,380.04	45,996.30	853,387.37	84,114.58	1,781,996.08	179,582.95
SEPTEMBER	435,716.52	129,143.09	67,736.46	46,531.38	877,788.11	86,110.80	1,643,026.36	373,119.28
OCTOBER	502,626.39	203,136.39	74,376.17	46,149.18	964,919.86	100,830.52	1,892,038.51	298,446.72
NOVEMBER	628,291.42	275,747.43	68,602.21	46,369.68	871,357.32	92,179.85	1,982,547.91	22,158.08
DECEMBER	524,766.12	320,444.89	73,008.72	46,419.66	904,055.50	94,271.68	1,962,966.57	131,623.35
JANUARY	585,880.78	446,978.97	85,439.12	46,425.54	1,173,307.54	133,063.58	2,471,095.53	168,623.35
FEBRUARY	512,585.52	396,163.06	85,789.14	46,481.40	866,732.33	99,200.81	2,006,952.26	-26,913.44
MARCH	736,601.21	517,139.53	97,149.74	46,501.98	969,109.56	107,828.39	2,474,330.41	-248,486.64
APRIL	712,249.85	513,024.92	93,933.44	46,507.86	910,496.23	102,623.00	2,378,835.30	-270,910.74
MAY	671,457.00	543,656.75	91,681.22	46,410.84	899,417.19	102,539.47	2,355,162.47	-275,407.20
JUNE	686,935.17	510,252.23	109,059.55	46,360.86	1,168,429.51	139,554.68	2,660,592.00	-52,989.37
TOTALS	$7,298,769.38	$3,919,985.90	$993,351.28	$557,371.08	$11,596,435.42	$1,259,063.78	$25,624,976.74	$1,090,714.76

PHILIP J. KEARNEY
EXECUTIVE DIRECTOR

ANNUAL DEPARTMENTAL REPORT

HEALTH SERVICE SYSTEM

Fiscal Year July 1, 1980 - June 30, 1981

TABLE OF CONTENTS

I. HISTORY

The Health Service System was established by Charter Amendment in March of 1937 and has been conducting business officially since October, 1938. The Health Service System became a fully budgeted department of the City and County of San Francisco in 1961.

The System was unique when it was established because it provided for a self-funded medical plan and today it is one of the few county or municipal plans in the United States which handles its medical program on a self-funded and self-administered basis.

The Health Service System is organizationally divided into three divisions and three budgetary programs: Administration, Membership and Medical Claims.

II. ADMINISTRATION

The Health Service System is administered by the Health Service Board through its Executive Director.

HEALTH SERVICE BOARD:

The Health Service Board is entrusted with the responsibility of adopting a health plan or plans for the rendering of medical care to members of the system with the ideal of providing the best possible medical coverage at the most reasonable cost to all its members. The Board is composed of seven members: three members elected from the membership at large, two ex-officio members from City government, and two members appointed by the Mayor who represent expertise from the insurance and medical fields. Members of the Board during the 1980-81 fiscal year were:

Employee Members:	Mr. Joseph A. Gaggero Recreation and Park
	Mr. F. Walter Johnson Retirement System
	Mr. Harry Paretchan, President San Francisco Fire Department
Ex-Officio Members:	Honorable Louise H. Renne, Chairman Finance Committee, San Francisco Board of Supervisors
	Mr. Thomas A. Toomey Representing Mr. George Agnost, City Attorney
Appointed Members:	Abraham Bernstein, M.D. Practicing Physician
	Mr. Robert E. Hassing Insurance Executive, Buckbee-Thorne

It is felt that the composition of the Health Service Board presents a very well-balanced working unit. There is a close liaison established between City employees and City governmental officials with expertise in the medical and insurance fields provided from the private sector. There is no more experienced or better qualified group of people setting policy for any department in municipal government than the individuals working as members of the Health Service Board.

RULES AND REGULATIONS:

The Health Service Board, through its committee structure, completely reviewed the Rules and Regulations of the System during 1980-81 to ensure that they were in conformance with current practice, charter changes and State and Federal laws.

A complete and updated text of the current Rules and Regulations of the System was printed on the 1981-82 Comparison of Health Plans sheet which was published and distributed in April, 1981 to every active employee through the City Departments and to Retired Employees through the Retired Employees' Association, as well as being available upon request from the System's office. Individual health plan booklets detailing the specific benefits of each plan are also available in the System's office.

MEDICAL PLANS:

Three plans were offered to the membership during the 1980-81 fiscal year: Plan I, the City Administered Health Plan; Plan II, Kaiser Foundation Health Plan; Plan III, Children's Hospital Health Plan. These three plans provided a balanced offering to the membership. One plan is an indemnity plan and the other two are prepaid health plans. The Kaiser Health Plan has been offered to City employees since 1949 and the Children's Health Plan since July, 1978.

The Health Service Board during this fiscal year also adopted two additional health plans to be offered to members during the 1981-82 fiscal year: The French Hospital Health Plan, a prepaid plan, and the Bay Pacific Health Plan, a federally qualified prepaid individual practice health maintenance organization. The two additional plans were adopted primarily because of an enrollment limit ceiling being experienced by the Children's Hospital Health Plan and the sudden influx of temporary employees caused by passage of Proposition D on the November, 1980 ballot.

The voluntary dental plan, Safeguard Health Plans Inc., has now completed its second year of providing services to City employees. Over 2,200 active employees and 648 retired employees are currently enrolled in the plan which has provided a viable alternative to an indemnified dental plan for City employees. An indemnity dental plan cannot be offered to all employees because funding by the City and County is not provided due to City charter restrictions.

BENEFITS AND RATES:

The Health Service Board continues to survey currently through a committee structure comparative premium rates throughout the medical field. The findings and changes uncovered as a result of the survey along with the actuarial cost of providing benefits to each status class are presented to the full Board for consideration, and are implemented in rate changes at the commencement of each fiscal year. The Board is primarily responsible for setting the rates for the City Plan I. For the remaining plans offered, it becomes the Board's responsibility to determine whether or not the contract rates, as presented, are in line with the benefits provided.

Medical contribution rates increased between 11% and 14% for the 1980-81 fiscal year for the three plans offered. The City Plan increased benefits in the following areas:

Modality of Service	Basic Increase	Major Medical Coverage Increase
Physician Visit	$15 to $18	$45 to $54
Hospital Visit	$14 to $18	$42 to $54
Initial Hospital Visit	-	$100 to $120
Complete Examination Consultation	-	$135 to $153
Diagnostic Study	-	$76 to $100
Hospital Room and Board	-	$224 to $252
Medicare Inpatient Deductible	-	$180 to $204

The Health Service Board also approved coverage for services of a licensed nurse midwife and coverage for occupational therapy during this fiscal year.

The Kaiser Foundation Health Plan provided coverage for psychiatric care for the first time in compliance with federal HMO requirements.

The Children's Hospital Health Plan provided a prescription drug plan with a $3.00 deductible for the first time.

CITY FISCAL CONTRIBUTION:

- Effective July 1, 1980, the City and County of San Francisco contributed $44.55 per month toward the cost of an active employee's medical insurance coverage. This $44.55 represented an increase of $4.47 above the City's contribution for the previous fiscal year and represented 100% of the average being contributed by the ten (10) most populous counties in the State of California as determined by survey conducted in the preceding fiscal year pursuant to charter section 8.423. It should be noted that dependents are not subsidized; the City and County of San Francisco contribution is for the employee only; this in light of the fact that eight (8) of the ten (10) most populous counties in the State are subsidizing dependents.

The City also subsidizes retired employees. The Charter requires that retired employees not pay more out of pocket each month than an active employee, and that the City contribute the funds necessary to defray the difference in cost to provide the same health coverage to retired employees as is provided to active employees. The Retired Subsidy will therefore fluctuate as the rates for each plan fluctuate. As an example, the contract rate for a single active member in Plan I for the fiscal year 1980-1981 was $52.62 per month. The rate for a retired single member (not in medicare) was $90.79 per month. When the City contribution of $44.55 is subtracted from the $52.62 rate, the active employee was paying $8.07 per month out of pocket. His retired counterpart could then pay no more than $8.07 per month out of pocket. Subtracting the $8.07 payment by the active employee from the $90.79 rate for retired employees without Medicare, we arrive at the Retired Subsidy of $82.72. It is interesting to note that the City contributes $82.72 per month for a retired member without Medicare and only $44.55 per month for an active member. The Retired Subsidy for this fiscal year ranged from $28.44 to $82.72 per month per retired member.

The Charter also provides that retired persons shall have their medical contributions reduced by the amount they must pay Medicare. Hence, a retired person in Medicare will have his Health Service medical contributions reduced by the Medicare contribution for that year. The Medicare cost during the 1980-81 fiscal year was $9.60 per month, which based on the 1980-81 rate structure for all plans, provides all retired persons in Medicare with a zero contribution rate.

The Health Service Board adopted a rule in March 1975 which provides that:

> "All members and dependents who attain age 65 and who qualify for eligibility in the Part A (HOSPITAL) portion of Medicare on a non-contributory basis must enroll to remain a member of the Health Service System.
>
> "Those members and dependents who attain age 65 and who thereby qualify for eligibility in the Part B (MEDICAL) portion of Medicare must enroll to remain a member of the Health Service System.
>
> "All members and dependents who qualify for early Social Security, and thereby become eligible for early Medicare Part A and B portions, must enroll to remain a member of the Health Service System."

This rule provision has saved the City and County millions of dollars in additional subsidies for retired employees over the ensuing fiscal years and will save many more dollars in future years. A cost reduction of approximately $2.4 million was generated in the 1980-81 fiscal year alone because of Medicare membership. The establishment of Medicare as the primary source of financial responsibility allows all health plans to provide their services to retired employees and dependents at a lower rate to the City and to the members. The number of retired employees and dependents over 65 years without Medicare coverage continues to decline as the pre 1975 retirees leave the System.

FINANCIAL STATUS:

The revenue received from members' contributions and City subsidy for both active and retired employees for the fiscal year was $29,485,564. This amount with prior year operational reserves of $1,090,715, refunds from medical claims of $270,932, and transfers from Trust reserves of $251,962, came to a total of $31,099,173 available for expenditure during the 1980-81 fiscal year.

The expenditures for the period consisted of payments for medical claims on the City Administered Plan, and premiums due our medical contractors: Paid Prescriptions, California Vision Service, Kaiser Foundation Health Plan and Children's Hospital Health Plan totalling $30,682,247.

The excess of operating revenues over expenditures at the close of the fiscal year in the amount of $416,926 was available to carry forward to the 1981-82 fiscal year. The Health Service System Comparison of Administrative Expenditures, Fiscal Year 1979-1980 and 1980-1981, Page 7, and Statement of Revenue and Expenditure for Fiscal Year 1980-1981, Page 8, are included as part of this report.

The Health Service System held contingency reserves of $5,000,000 during the Fiscal Year 1980-81. These reserves were invested in Certificated Deposits through the City Treasurer. The maturity dates on these deposits are staggered to insure availability of funds and to obtain the highest yield. Interest collected on these deposits for Fiscal Year 1980-81 amounted to $537,747 with a current average yield as of June 30, 1981 of 16.47%. The System's contributions of $29,485,564 for the 1980-81 Fiscal Year were made up of 43% contributions from members and 57% contributions on the part of the City and County, School District and Community College District.

HEALTH SERVICE SYSTEM

COMPARISON OF EXPENDITURES

FISCAL YEARS 1979-1980 and 1980-1981

	1979-1980				1980-1981			
	ADMIN.	MEMBERSHIP	CLAIMS	TOTAL	ADMIN.	MEMBERSHIP	CLAIMS	TOTAL
Permanent Salaries - Misc.	78,624	119,097	191,068	388,789	92,644	120,491	248,571	461,706
Payment in Lieu of Sick Leave					13,224			13,224
Temporary Salaries		8,733		8,733	9,448	9,448		18,896
Retroactive Salaries	6,037	9,358	14,792	30,187				
Overtime		2,716	2,478	5,194	66	1,586		1,652
Mandatory Fringe Benefits	24,673	38,257	60,449	123,379	33,563	29,011	55,770	118,344
Contractual Services	1,450	1,538	1,661	4,649	4,267	3,067	30,548	37,882
Materials and Supplies	67	377	1,775	2,219	281	621	4,286	5,188
Equipment						5,616		5,616
Fixed Charges	256			256	210			210
Controller's EDP		80,388	196,813	277,201		99,911	196,521	296,432
Purchaser's Reproduction	117	1,849	374	2,340	106	1,144	984	2,234
Registrar of Voters					1,900			1,900
Workmen's Compensation	450			450	3,270			3,270
TOTAL	111,674	262,313	469,410	843,397	158,979	270,895	536,680	966,554

HEALTH SERVICE SYSTEM

STATEMENT OF REVENUE AND EXPENDITURES FOR F.Y. 1980-81

REVENUES

1980-1981 MONTH	PRIOR YEAR RESERVE	CONTRIBUTIONS	MATCHING	SUBSIDY	REFUND FROM CLAIMS BASIC	REFUND FROM CLAIMS M.M.	AVAILABLE
JULY	$ 1,090,714.76	$ 918,018.38	$ 754,301.27	$ 428,735.35	$ 603.60	$ 1,051.14	$ 3,193,425.50
AUGUST		1,002,701.08	806,053.29	439,622.05	20,878.04	19,281.70	2,288,536.16
SEPTEMBER		1,000,603.64	847,199.65	431,481.79	12,705.42	3,589.34	2,295,579.84
OCTOBER	251,962.08	1,071,107.27	946,137.18	453,270.19	17,967.61	6,495.01	2,746,939.34
NOVEMBER		975,859.50	832,255.11	440,046.94	11,666.46	2,760.05	2,262,588.06
DECEMBER		1,352,067.27	1,193,319.77	467,626.56	7,972.04	2,434.77	3,023,420.41
JANUARY		1,042,862.75	878,078.93	474,558.43	12,526.60	5,460.97	2,413,489.68
FEBRUARY		1,039,692.33	918,259.98	457,155.35	11,490.45	7,197.09	2,433,795.20
MARCH		1,049,219.97	940,384.75	444,197.84	25,221.49	20,608.25	2,479,632.30
APRIL		1,034,974.42	942,149.14	444,021.74	13,997.10	2,229.87	2,437,372.27
MAY		1,019,519.14	940,047.23	440,140.23	14,264.67	21,281.94	2,435,253.21
JUNE		1,322,603.82	1,297,796.04	439,494.78	20,640.49	8,608.16	3,089,143.29
TOTALS	$ 1,342,676.84	$ 12,829,229.57	$ 11,295,983.34	$ 5,360,351.25	$ 169,933.97	$ 100,998.29	$ 31,099,173.26

EXPENDITURES

1980-1981 MONTH	BASIC	MAJOR MEDICAL	PAID PRESCRIPTIONS	CALIF. VISION SERVICE	KAISER	CHILDREN'S HOSPITAL	PAYMENTS	BALANCE
JULY	$ 704,110.84	$ 557,058.33	$ 82,328.44 *	$ 52,955.36	$ 949,810.49	$ 116,563.44	$ 2,462,826.90	$ 730,598.60
AUGUST	591,374.60	387,806.76	88,293.08 *	53,062.00	1,016,714.93	122,026.97	2,259,278.34	29,257.82
SEPTEMBER	568,724.63	357,584.17	87,010.85 *	52,931.28	1,041,902.64	133,073.99	2,241,227.56	54,352.28
OCTOBER	600,205.98	436,278.15	344,361.13 *	52,914.08	1,146,638.24	150,005.51	2,730,403.09	16,536.25
NOVEMBER	521,749.71	407,007.27		52,903.76	1,023,204.02	135,062.93	2,139,927.69	122,660.37
DECEMBER	650,989.04	449,902.44	3,367.18	52,948.48	1,402,792.52	194,991.90	2,754,991.56	260,428.85
JANUARY	693,398.11	545,766.97	176,251.94	52,907.20	1,078,273.12	148,324.27	2,694,921.61	281,433.93-
FEBRUARY	568,083.01	485,775.67	107,380.73	53,423.20	1,091,517.38	163,200.06	2,469,300.05	35,584.85-
MARCH	638,727.53	644,747.65	103,785.98	53,633.04	1,116,360.40	164,484.60	2,721,739.20	242,106.90-
APRIL	684,998.80	597,818.49	91,490.50	54,407.04	1,110,264.58	165,182.62	2,704,162.03	266,789.76-
MAY	477,957.08	402,042.67	123,620.53	54,709.76	1,106,476.91	162,949.50	2,327,756.45	107,496.76
JUNE	678,449.15	678,794.50	92,808.87	54,816.40	1,450,548.90	220,215.12	3,175,632.94	86,489.65-
	$ 7,378,768.48	$ 5,950,583.07	$ 1,300,699.23	$ 641,611.60	$13,534,504.13	$ 1,876,080.91	$ 30,682,247.42	$ 416,925.84

*CGM ENTERPRISES, INC.

Randall B. Smith

RANDALL B. SMITH
EXECUTIVE DIRECTOR

III. MEMBERSHIP

The Membership Division accounts for approximately $30 million per year in revenues which are received, reconciled and disbursed to the appropriate medical plan. This Division is also responsible for maintaining membership records of contributors and dependents, including enrollments, addition of dependents, terminations and status changes. It monitors Medicare membership and the transition of active employees to retired status through the City, State Teachers, and State Public Employees Retirement Systems.

The Health Service System had a total enrollment of 26,284 active employees, 10,015 retired employees, and 33,894 dependents as of June 30, 1981. This represents a net increase of 2,679 employees and 168 retired employees over the June 30, 1980 membership census. The Membership statistics for the System, Page 11, is included as part of this report.

The passage of Proposition D on the November 4, 1980 ballot resulted in the amendment of Administrative Code Section 16.700 to provide health coverage for temporary City employees. A total of 2,542 temporary employees were enrolled between the passage of the proposition and June 30, 1981. This mass influx of members placed a tremendous burden on this Division. This burden is still being felt as a result of the ongoing need to handle reconciliations, additions, terminations and related clerical functions of these temporary employees. This influx occurred at a time in which the Division has been reduced in staff from 15 to 12 employees because of forced budget reductions.

The EDP programs of the Membership Division are becoming antiquated relative to the amount of work which must be done manually. Some of the additional manual workload has been caused by the City's FAMIS accounting system and the MSA payroll system of the Recreation and Park Department. A feasibility study to upgrade the Membership Division's data processing capabilities, which was scheduled to commence during the 1980-81 Fiscal Year has unfortunately been deferred to the 1981-82 Fiscal Year because of personnel shortages in the data processing section.

The 38 Membership data processing jobs and some 110 programs, most of which were written in the early 1960's, require change to provide more timely and complete information, expedition of revenues, expedition of contribution refund rolls, and a decrease in the number of data processing transactions which must be generated each year.

HEALTH SERVICE SYSTEM

MEMBERSHIP STATUS REPORT

JUNE 30, 1981

MEMBERSHIP CATEGORY	PLAN I	PLAN 2	PLAN 3	EXEMPT	TOTALS
EMPLOYEES	8,928	13,221	2,577	1,353	26,079
EMPLOYEES - MEDICARE	112	78	15		205
	9,040	13,299	2,592		26,284
RETIRED	1,930	1,595	65		3,590
RETIRED - MEDICARE	4,174	2,157	94		6,425
	6,104	3,752	159		10,015
ADULT DEPENDENTS	4,347	6,232	641		11,220
ADULT DEPENDENTS-MEDICARE	1,476	843	31		2,350
	5,823	7,075	672		13,570
MINOR DEPENDENTS	6,254	12,651	1,419		20,324
PLAN TOTALS	27,221	36,777	4,842	1,353	70,193

IV. MEDICAL CLAIMS

GENERAL INFORMATION:

The Claims Division has responsibility for processing all medical claims submitted for benefits by City Administered Health Plan members. It must also respond to all office and telephone inquiries of members and medical providers and handle disposition of related areas, such as, coordination of benefits, Workmen's Compensation claims and Medi-Cal claims.

The Claims Division also maintains close liaison with the Compensation Claims Division of the Retirement System in order to ensure refund of monies expended on cases later determined to have been industrial in origin. Close surveillance of this aspect, as well as, coordinating benefits with insurance carriers and other trust funds is required to protect the financial structure of the System.

The claims processing function, which was converted from a manual to an automated processing system in July 1979, has now completed its second year of operation. All major programmatic problems have been resolved and the System is functioning well with an average turn-around time on submitted and processable claims of ten working days.

The absorption of the entire administrative function, as well as the financial risk for City Plan I, has resulted in projected annual savings to the System of $318,000. The administrative function has been centralized resulting in projected savings of $56,015. Additional projected savings of $14,700 in commissions, $108,620 in premium taxes, $138,665 in risk and contingency expense have been eliminated.

There are other tangible improvements to the Plan besides the dollar cost savings. The service to the employee is improved in that turn-around time is substantially reduced; all benefits, both basic and major medical are automatically calculated and paid, and disposition on every claim submitted is insured.

An average of 2,115 claims were submitted each week during the fiscal year and approximately 261,000 data processing transactions were made during the fiscal year.

The Basic Benefits net expenditures for 1980-81 were $7,208,835 and the Major Medical net expenditures were $5,849,585. The overall loss ratio was 110% for the year with a reduction of $1,151,639 in operating reserves partially offset by interest earned on certificated deposits.

ACTUARIAL STATUS:

The actuarial firm of Rael & Letson is the consulting actuary to the Health Service System. Their primary duties are to present a monthly detailed report of current income and claim expenditures and to advise the Health Service Board on financial trends and transactions of the System. Their written report includes the contribution and claim figures under the City Basic and Major Medical Plan I and the Prescription Drug Plan.

Rael & Letson is also responsible for establishing the contribution rates for the foregoing three benefits. As previously stated, the ratio of overall claims to contributions was 110% for the 1980-81 Fiscal Year. Most of the claim excess was financed by interest from certificated deposits. The rates for the 1981-82 Fiscal Year have been adjusted to restore the balance of contributions to claims. The System is currently holding $5 million in certificated deposits. This amount provides the reserve requirement for "incurred but unpaid" claims, as well as a contingency reserve on the Plan I Basic and Major Medical benefits.

In the opinion of Rael & Letson, the Health Service System is actuarially sound and the contribution rates for the 1981-82 Fiscal Year, together with the interest earned on the certificated deposits, under normal conditions will be adequate to meet the cost of benefits during the year.

MEDICAL STATUS:

Dr. James T. Fitzgerald, Medical Adviser to the Health Service System, reports that during the Fiscal Year 1980-81, the task of integrating the basic benefit plan of the Health Service System with our major medical program has proceeded, at times very smoothly, and at other times with perplexing results. This has usually been in the matter of definitions, and extent of coverage. However, as time goes by, these problems are being resolved, and a system with increasing conformity is developing. None of the problems involved, however, can be considered of major difficulty.

During this past year, we have changed the contractor for our drug plan. The current contract is held by Paid Prescriptions. We have maintained the same $4.00 deductible on all prescriptions. This program is running smoothly and does much to alleviate the cost of prescribed drugs to our members.

Our Vision Service Plan has provided us with excellent service since 1976, and the benefit has been widely utilized by the members of Plan I. The voluntary dental plan, which was introduced and which is provided by the Safeguard Health Plans, Inc., continues to be operational and provides services for those employees both active and retired who wish to take opportunity of this voluntary closed panel plan.

As mentioned earlier in this report, we have increased the choice of our health providers to a total of five. Four of the plans are of the HMO type and one, City Plan I, is of the reimbursement type. Two of these plans, French Hospital and Bay Pacific, will become effective as of July 1, 1981 so that no comments can yet be made regarding the quality of services which they will deliver. Further discussion of these plans will be noted in the report of 1981-82. However, one can state that these plans were thoroughly investigated and were accepted as being sound alternative plans for the health care of the members of the Health Service System.

In further reviewing the year 1980-81, there have been increases in the benefit allowances of Plan I for many services, particularly, for office and hospital calls and hospital room and board rates. Details of these increases are enumerated under the Benefits and Rates section of the Administration program.

To conform with usually accepted provider coverage for treatment of mental or emotional disease, we have broadened our scope of providers to include not only psychiatrists and licensed psychologists, but also Masters of Social Work, and are planning to accept in 1981-82 the category of Marriage, Family, and Child Counselors. In all instances we do not cover claims from providers who are not licensed under the State of California to provide the service for which they are billing.

We are also now providing services rendered by nurse mid-wives licensed by the State of California.

In summation, I feel that the Health Service System provides a wide scope of optional plans of health care to the employees of the City and County of San Francisco, and that the coverage offered fulfills the needs of all its members. One weakness of the system is the fact that neither Plan I nor any of the other plans, provides for dental care benefits save for limited and extraordinary circumstances. It is my feeling that until such time as we have an adequate open panel dental plan, the spectrum of medical services offered by the Health Service System to its membership cannot be considered complete.

V. RECOMMENDATIONS

The following recommendations are made and will be actively pursued even though the City's financial resources continue to dwindle because of the effects of Proposition 13.

1. The Health Service System needs at least two additional staff in the Membership Division to provide timely receipt of revenue and to assure that employee enrollments, terminations, and status changes are completed promptly. The department's staff was reduced by six positions in the 1981-82 Fiscal Year budget even though the passage of Proposition D on the November 1980 ballot resulted in the forced assimilation of over 2,500 temporary employees and in excess of 900 dependents within a six-month period, January to June 1981, and the System must continue to maintain these individuals.

2. The City and County should absorb a greater portion of the cost to provide health coverage to employees and their dependents. The current formula of contributing the average contribution for an employee only, for medical care, exclusive of optical and dental, of the ten most populous counties is restrictive. It provides only the average contribution of ten counties; it must be taken before January of the previous fiscal year which makes the data stale by the following July 1st when it becomes effective; it does not provide funds for dental care which is now considered a common place employee benefit; and it does not provide any funds to defray the cost of providing medical coverage to dependents of the employee.

The cost of medical care is currently exceeding the inflation rate. Medical costs increased at an annual rate of 12.6 per cent compared to an inflation rate of 9.4 per cent during the period, January to July 1981. These escalating costs are passed on in total to the employee with dependents since the City doesn't subsidize dependents health care. For example, medical premiums for dependents increased between 6 and 19 per cent for the 1980-81 Fiscal Year versus 1979-80. Out of pocket costs to the employee in 1980-81 ranged from $39.85 - $50.97 per month for one dependent to $68.20 - $83.74 per month for two or more dependents. This is a tremendous financial burden to most City employees. It is a burden for which a remedy should be found in the near future.